Retail Organization and Accounting Control

RETAIL ORGANIZATION

AND

ACCOUNTING CONTROL

BY

PHILIP I. CARTHAGE

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DEDICATED TO

MY DEAR WIFE,

E. C.,

WHO INSPIRED THE WRITING

OF THIS BOOK

INTRODUCTION

With the firm belief that Accounting may eventually become a science, and that the knowledge accumulated through experience and experiments is essential to the furtherance of such science, I have written this book out of my accumulated knowledge and experience for the benefit of retailing establishments and the accounting profession.

We are living in a world of specialization and in writing this book, I have treated in its entirety retail control. All the systems have been installed with very large organizations to test their worth, prior to placing them before Retailers and the Accounting world in this volume. No consideration whatever is given to manufacturing, excepting where it is necessary to draw a comparison. The department store, the specialty shop, and retail store of any description are within the book's scope.

I have eliminated as far as possible technicalities, that the value of this volume may be enhanced as a textbook and wherever it may be required for a complete installation of a department store system.

I have long felt the need of a textbook on department store procedure, and have endeavored to render my book useful by its treatment of accounting, management and systems. Theory is entirely eliminated. Practical application and experience are its governing features.

The management of stores very often is confronted with perplexing problems. It endeavors to obtain knowledge of methods employed in other establishments. Twenty years in the retailing field in various sections of

the United States in the capacity of merchandise manage
sales promoter, comptroller and office manager have taug
me the requisites essential to the understanding of a w
informed department store executive.

PHILIP I. CARTHAGE.

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Retail Organization
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CHAPTER I

BOOKS IN USE AND PROCEDURE

Unlike the manufacturing or jobbing business, the department store finds it a necessity to carry a considerable number of book records to complete its net work of accounting and system. The details are so extensive that efficient management requires various information so that proper statistics can be set up, in report form, to assist the executives, department managers, and buyers to perform properly the functions of their positions.

All the books in use make up the Accounting system, and the policy of the establishment is reflected therein. The books must be complete for the records intended, and must coördinate with the house and policy system. In coördination, oftentimes fraudulent entries, or inaccuracy can be detected; but, most important of all, the requirements of detail are so necessary that insufficient information becomes the greatest burden to contend with. Aside from good commercial requisites, the technicalities of the federal, state, and municipal laws require complete records of commercial enterprises to be kept. All this may be summarized by briefly saying that the accountant of a commercial organization is a historian who daily records, minutely, the incidents as they occur during its life.

Considerable attention should be given to the establishing of book records, so that a repetition does not occur. An analysis of most offices will show that like records are kept in diverse forms, most of which are never, or very seldom, required; nor does the information assist in the management of the establishment. Greatest of all is the unnecessary, indirect burden added to operations. The worth of statis-

tics should be given careful consideration, prior to establishing these book records.

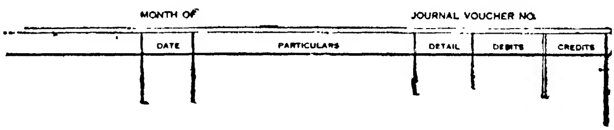
General Ledger.— The General Ledger is the one book wherein all accounts and every transaction are summarized. Unlike the manufacturing company where the burden of overhead is itemized in a subsidiary ledger, which reflects the details of the cost accounting system, the General Ledger of the department store records all its workings, with the exception of the one subsidiary ledger known as the department ledger. This general ledger will contain all balance sheet accounts in the first part of the ledger, followed by the profit and loss accounts and financial income accounts.

Journal Vouchers.— The form of entry into the general ledger is made through the Journal Voucher, shown in Form 1. The author recommends but one entry. That is, one set of debits and one set of credits appear on a Journal Voucher, for auditing reasons. The detail column specified on this form, supporting the general ledger columns of debits and credits, is posted in the Subsidiary ledgers.

The adoption of the Journal Voucher not only prepares for the postings of the book records in use, but for the special entries and miscellaneous detail that does not come within the provisions of the various book records. The voucher must be attested to officially by signature before posting in the general ledger. These Journal Vouchers, though primarily affecting the general ledger, in most cases affect the merchandising departmental ledger where a profit and loss account is involved, or subsidiary ledgers, the control of which are kept in the general ledger. For example, a change is to be made in an account in the accounts receivable ledger. The detail will be shown in the detail column, prior to posting the Journal Voucher, in the general ledger. The accounts receivable bookkeeper will be obliged to initial the detail entry, indicating that

the entry has been posted to the accounts receivable ledger. Care must be exercised in the proper distribution of these postings where other items are affected, so that the working papers or distribution book will summarize the posting, for one final entry for the month, in the account provided for in the departmental ledger. An omission of this procedure will affect the trial balance.

The Journal Voucher cannot be accepted officially as part of the accounting system unless detailed information is given supporting the Journal entries. The descriptive matter must be given concisely but clearly; it must be sufficient to obliterate any doubt as to authenticity.



FORM 1.—JOURNAL VOUCHER

The Subsidiary Ledgers.— Subsidiary Ledgers are those which support the general ledger, giving such details as are required to set up either cost accounting or a division of the various overheads or burden. These ledgers should be so kept that a detailed statement is obtainable, in order to arrive at every conceivable information from which statistics can be set up. Ledgers that are subsidiary to the General Ledger are Accounts Receivable, Accounts Payable, Burden Ledger, Stock Ledgers. In fact, any Ledger, the accounting of which is controlled in the General Ledger by controlling accounts, is known as a Subsidiary Ledger. Most important of all, and often referred to by the management, is the Departmental Ledger (operating department or merchandising departments).

Distribution of Working Records.— In making the distribution of the general ledger for the departmental ledger,

there are quite a good many accounts which will be merged into one. Then a final total is posted in the departmental ledger.

From an auditor's viewpoint, it is customary to make such a summary on a neatly appointed sheet. The manager of the office or chief accountant should see that such distributions are kept in bound book form, from which record, postings will be made in the departmental ledger. Thus a clear working record is obtained that wil' be open for proper auditing. It is customary for examining accountants to set up all detail on a uniform columnar sheet, known as working papers. But these working papers are likewise essential in good office management, and, where the accounting department does not keep records of this nature, they are highly recommended for adoption. It will be found that they are very often referred to and are very important as reference records.

Private Ledgers.— Some organizations, aside from the use of the general ledger, also employ what is known as a Private Ledger. While there should not be any distinction between the general ledger and the Private Ledger, since all controlling accounts are within the one scope, the private ledger will be used to control investment accounts, also for a few controlling accounts which will not appear in the general ledger. But both Private and General Ledger must be taken into account in rendering the balance sheet for an organization. Personal accounts, such as those of members of the company, are generally kept therein. Impersonal accounts are out of place in this ledger. Impersonal accounts are those that indicate a condition.

Corporation Stock Ledgers.— The Stock Ledgers of a corporation will in no way affect the General Ledger, with the exception that the record of the amount of stock issued, whether common or preferred, or treasury stock, will appear

in the capital accounts. Care must be exercised in handling the Stock Ledger that a clear and concise record is kept of all the stockholders of the company, that the tax stamps required by the Government have been affixed properly, and that all canceled stock is attached to the stock record.

It is customary, prior to issuing dividends, that these stock ledgers be closed for a period of a few days or a few weeks. Thus an opportunity, in large corporations, to close the books properly is given, and to issue dividends to stockholders of record. The Stock Ledger must conform to all the requirements of the by-laws of the corporation. In the larger corporations, especially those that conduct extensive branch offices or plants, a duplicate of the ledger will be maintained at the principal branches. The closing of this ledger is generally prior to the periodical meetings of the Board of Directors. This record is governed by the laws of the state of the company's incorporation, and it is important that an account record be kept of all stockholders, their holdings of the corporate stock, their names and addresses, alphabetically arranged, the date their stock was acquired, the stocks subscribed for, the stocks open, all transfers and records.

Corporation Debt Limitations.— A corporation whose by-laws limit indebtedness unless it has been voted and passed upon by a quorum (a stipulated number of the Board of Directors, or stockholders of record) should maintain a record known as "APPROPRIATION." The accountant should require a requisition specifically referring to the particular appropriation and a report rendered periodically of the conditions surrounding each appropriation, that corresponds with the minutes of the directors' meetings.

In conjunction with the foregoing records, a monthly report should be rendered and made a part of the monthly balance sheet. This should give analytical information

about all appropriations, open or overdrawn, or contracts executed and completed within the required stipulations of the appropriation.

Burden Ledger.— It is known that the elements of cost accounting, in a manufacturing organization, are those of material, labor and burden, better known as overhead.

Some of the larger department stores conduct their own manufacturing organizations, for articles that the management believes can be manufactured better by themselves than bought from manufacturers, wholesalers, or jobbers. But these instances are very few. The department stores buy their products, which they place on sale, from the manufacturer. Thus two elements are merged into one. That is, material and labor are merged into one element known as merchandise, for which a specific price has been paid, and on which price an increase is placed for retailing.

There can be but two divisions in cost for a department store: (1) Merchandise. (2) Burden. Burden covers everything but the cost of the merchandise.

Again we have the manufacturing organization which has a Burden Ledger. "An account will appear in the general ledger as work-in-process. This account is supported in the general ledger with detail, which will be summarized by giving rough stock, finished material, labor and burden. The detail of the Burden is to be found in the Burden Subsidiary Ledger in which the various expenses are itemized. The burden is applied to the work-in-process, the cost of labor is added thereto, and reduced by crediting the work-in-process with finished stock."

The department store eliminates the subsidiary burden ledger inasmuch as the burden is divided into nine different divisions. This is treated in the Chapter on Burden. The divisions are the working overhead of the retail establishment and cover every detail conceivable. They are kept in the general ledger under the proper divisions.

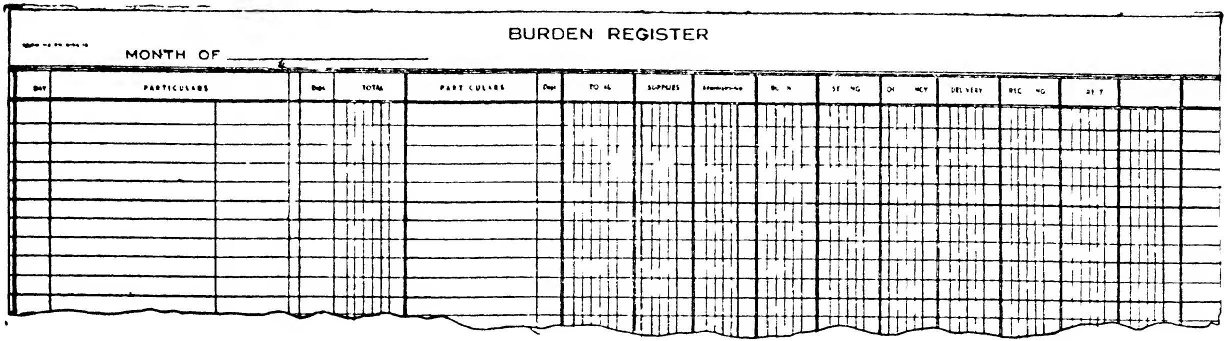
Burden Payable Ledger.— This ledger, sometimes referred to as the expense ledger, contains those personal accounts for which impersonal accounts are set up in the general ledger, giving the detail of Burden necessary to conduct the establishment.

The entries in this ledger are received from the Burden Purchase Register, or voucher systems, of controlling expenses incurred. The control of the Burden Ledger, which also corresponds to the Burden Payable in the general ledger, receives its control by summarizing the monthly or given period of purchases as a credit, and is debited with cash paid, returns, or other debit entries applicable to this account.

Burden Register.— All expense bills are entered in the Register and segregated to the proper divisions of the store Burden, from which postings are made into the Burden Payable Ledger Personal Account (Form 2).

The aggregation of the impersonal entries is journalized and proper disposition is made to the general ledger accounts. Each division of the store Burden must be analyzed prior to closing the entries for the month in order that the detail will appear on the journal voucher for distribution to the general ledger accounts. It is recommended that each item of store Burden be carried under its own caption. The larger a store grows, the greater will be the necessity for a budget system. The adoption of the budget will require provisions for various expenditures and the appropriations must be accounted for, all of which assists in the control of the store Burden.

Burden Vouchers.— An accountant who is installing a system in an organization must not for a moment so forget himself as to make the business fit the system. On the contrary, he must organize the accounting system to fit the business, and to fit it in such a manner that the desired results will be obtained without any circumvolution.



FORM 2.— BURDEN REGISTER

In manufacturing organizations, all Burden is summarized and known by numbers. This summary book is better known as A CHART OF ACCOUNTS, in which the Administration will have its own set of burden, planning, and the engineering department, its set of Burden, etc. The reason for such distribution of Burden is the extensive number of items of which the Burden or Overhead is comprised. For instance, an automobile manufacturing organization may have 10,000 different distinct parts of which the machine is made up. This manufacturing organization may make its own tools and its own parts, conduct its own brass foundries, its own aluminum foundries, its own steel plants. In order that the business may be departmentized properly and the burden properly distributed, A CARD OF ACCOUNTS becomes an essential necessity. The department store cannot apply the Burden in the form of a CARD OF ACCOUNTS for the reason that while it is extensive, it is segregated into a stipulated number of divisional burdens.

Accountants may argue that Form 4, which is given here, is not the kind that is customarily used in department stores. But the evolution of accounting is such that eventually the department store will find it to its advantage, and in fact a necessity for better accounting, to adopt the methods herein described.

Some stores have what is known as an expense record. They enter the various expenses that are incurred without any divisional segregation of Burden. While this expense record will produce a burden statement, its effect is lost in not giving proper application, and its value does not produce the effect necessary for comprehensive ability in the furtherance of successful management.

A Voucher system, in conjunction with the registering of Burden, is in the form of a combination ledger and check on the reverse side of the check. A carbon copy is set up. On this are enumerated the gross amount of the invoice

purchased, less the returns, for which a column is provided. Another column may be provided for claims, another for the discounts, and another for the net amount. At the end of the month, or at the payment period, each column is added separately and the total of the net column will be the amount payable to the company with whom the liability was incurred. The check is then reversed, and filled in with the check perforating machine, and the name specified to whom the check is payable. Thus, we have, at the end of a period, the check and remittance slip all made in one, as well as the ledger entry, which is separated from the check itself by a perforation. This is a great time-saver, but many accountants of extensive experience prefer the old-fashioned debit and credit ledger rather than the Voucher system, or the old ledger system in conjunction with the Voucher system. Experience, however, is the best test for the use of both the ledger and the voucher systems, all depending upon the volume of business, the class of help, the store's locality, and the policy by which it is governed.

Departmental Ledger.— There are many opinions as to how a Departmental Ledger for a department store should be kept. The many audits made by the author and the systems installed throughout the country show, we regret to say, that the percentage of retail establishments that have no perfect Departmental Ledger is deplorable. Such conditions can give only approximate results, rather than accurate information.

Form 3 is a department ledger which has been conceived by the author as being most ideal. It gives an entire year's accounting for a department, with the summarization, in the form of a profit and loss account on the same page, receiving its proper distribution from the subsidiary supporting books. It presents an equitable distribution of burden, logically applied and governed by economics.

The working of this ledger requires considerable care, not only in the distribution of the burden applied to the department, which is discussed in later pages, but in the auditing of the sales checks, which must be perfect in every respect.

The procedure begins with the entries from a journal voucher on which are summarized the cash sales, the C. O. D.'s, and the charges. Each department has its amount, which has been taken from the sales record and posted into the working month on the departmental ledger to the respective department, thus giving the gross amount of the sales. The returns, credits and allowances are likewise posted, the total of which is deducted from the total sales, giving the net sales for the month, or a total for a given date for the fiscal year.

The next column of this sheet is known as cost inventory. While stock in the department store is preferably controlled at retail, the cost of the stock on hand must be kept.

Purchases.— Purchases signify the net amount for the month contracted for and received by the department. This item will be net, as the returns have already been deducted. The item provided for discount would give the amount of discounts received through the department's purchases. It is customary for the department to receive credit for the discount obtained through its purchases of merchandise. Not a few stores permit the department to receive the extra profit made from discounts, using as a basis for such action the fact that discount is a financial income, that the department is carried on for merchandising purposes only, and that such a department can be credited only with the profits obtained by buying and selling, not with profits obtained through financial transactions.

The next section of this departmental ledger sheet is the burden. The burden of a department store will be divided into the headings of Administrative, Buying, Selling (which

Department ______

Departmental Ledger
Merchandise

Statistics Year 19

Dept

	Sales			Gross	Returns & Credits			Net	Cost			%	%	%	%	%	%
	Cash	C.O.D.	Charges	Sales	Cash	C O D	Charges	Sales	Inventory	Purchases	Discount	Ret	Turn	Gross Prof	Net Prof		
Jany																	
Feb																	
Mar																	
Apr																	
May																	
June																	
July																	
Aug																	
Sept																	
Oct																	
Nov																	
Dec																	
Total																	
% Net																	

Burden

	Adminis-trative	Buying	Selling			Occupancy	Delivery	Receiving	Indirect			%	%	%	%	%	%
			Salaries	Advtg	General							Sal	Adv	Sell	Bud	to Sales	Rets
Jany																	
Feb																	
Mar																	
Apr																	
May																	
June																	
July																	
Aug																	
Sept																	
Oct																	
Nov																	
Dec																	
Total																	
% Net Sales																	

Profit & Loss Statement		% Net Sales
Sales Cash		
C O D		
Chgs		
Total Sales		
Less Ret & Cr. Cash		
COD		
Chgs		
Less Total Ret		
Net Sales		
Less		
Invty Begin'g		
Purchases		
Less Invty End'g		
Cost of Sales		
Gross Profit		
Less		
Burden		
Administrative		
Buying		
Selling. Salaries		
Adverts		
General		
Occupancy		
Delivery		
Receiving		
Indirect		
Total Burden		
Net Income		
Add Financial		
Income		
Net Profits		

Buyer ______ from ______ to ______ Number of Sales Held ______

Carthage Retail System

Month of. 19

Purchase Record

Day	Account Name	√	Total			Dept A			Dept B			Dept C			Dept D		
			Qty	Cost	Retail	Qty	Cost	Retail	Qty	Cost	Retail	Qty	Cost	Retail	Qty	Cost	Retail

FORM 4.— PURCHASE RECORD

is made up of salaries, advertising, general and selling expenses), Occupancy, Delivery, Receiving and Indirect. Monthly statistical percentages are used on this ledger sheet for additional information.

Division of Controls.— Controls not only apply to accounts receivable, accounts payable and expense accounts payable, but a division of the burdens, under which the department store is operated.

The division of burden as previously referred to is set up under separate captions indicating expenditures affected. The total of these expenditures is controlled by each division of store burden and supported by the detailed accounts. Other controls necessary in the general ledger are will calls, C. O. D.'s, and budget provisions.

Controlling Accounts.— Controlling Accounts are the amount of money which equals a summary of the difference between all debits and credits that appear in a subsidiary ledger at a given date.

These Controlling Accounts are various. An exemplification of Controlling Accounts Receivable in a department store would signify the total amount of charges, as taken from the charge sales checks, less charge credits. This means such merchandise as has been returned from charge accounts, less the amount of cash received, less such claims, allowances, and discounts as may be offered by the store in inducing charge accounts; the balance of which should equal the total amount of accounts receivable. A trial balance taken of the accounts receivable ledger should equal the accounts receivable account in the general ledger or Control Account.

Possibly the greatest opening for fraud lies within the scope of accounts receivable. Care must be taken that proper provision is established, in posting every charge check to the accounts receivable ledger, that the daily postings of these sales equal the total amount of the charge

sales that appear in the summary of the daily audit record. This summary is in part the making of the controlling account for the accounts receivable ledger.

All subsidiary ledgers must be controlled in the general ledger. The items used for such control will be such as have a direct bearing on the items within the scope of the ledger in use.

Dr.	ACCOUNTS RECEIVABLE CONTROL	*Cr.*
Charges		Exchanges Returns Cash Received Allowances Discount Claims

Accounts Receivable Ledger.— Accounts Receivable for the department store signifies the open account due from charge customers who have a charge account with the company. Charge customers in a department store must receive the same attention as any charge account of any organization. Its credit investigation is necessary to determine upon the customer's responsibilities, such investigation culminating upon their credit lines.

The debit entry or charge for a purchase made by a customer receives its source at the time the customer makes the purchase. This is written up on the regulation department store sales check, which is hourly sent to the auditing department of the general office.

The sales checks are passed to the billing department, where they are segregated to the different ledgers. Thus the Control is properly set up for the Accounts Receivable. Then it is posted to the customer's ledger account.

Mechanical Bookkeeping.— Bookkeeping machines are rapidly replacing the old hand method of posting and bill-

ing, as their use has proved a timesaver and a more efficient method of placing charge accounts on record. As yet a perfect bookkeeping machine has not been invented, though there are a few which answer the desired purpose.

The procedure of this method of bookkeeping is applicable to most classes of machines. Charge sales checks are collected hourly. These are given to the supervisor of the accounts receivable department, who places them with the auditor of charge account checks. The cashier's voucher of the sales check will be blue penciled with the amount of the charge sales as well as the check itself. This is done to avoid any discrepancy in reading the amount chargeable and to avoid differences in the final audit. After the blue penciling, the vouchers are detached from the check proper and held until the following morning, the check proper having been divided into the various ledger divisions for control.

The checks are then passed to a "stuffer." The terminology of stuffer is applied to the clerk who assorts the checks alphabetically, according to ledgers, to the various ledger accounts, so that little time is lost by the ledger clerk.

The auditing department verifies the control of the top checks as set up by the supervisors or their auditors. When this is concluded and compared as to its correctness, the auditing department will proceed further with its own audit in its customary manner. However, the final daily audit requires a further verification, so that the total of the daily charge sale may jibe.

Charge credits follow the same procedure and are more fully explained under this caption.

The supervisor controls the charge total for the day as well as the credits for cash and returns. The ledger clerks must balance their accounts daily. To permit balancing of ledgers the first of the month encourages mistakes, care-

lessness and loss of control over the ledger clerks and their work.

Bills.—There are stores where the management requires that the billing department mail a bill to the customer aside from the copy of the sales check which is generally placed in the receptacle containing the merchandise purchased by the customer. This is not a question for the accountant to decide, but for the policy of the house to follow. It has its shortcomings, but it also is one of the means of stimulating collection. These bills are in no particular different from those rendered by any business organization. The terms appear without a probable exception, monthly settlements such as "This account is due when bill is rendered or payable on the tenth of the month, or the 15th of the month."

DAILY BILL

OUTFITTERS TO WOMEN, MISSES & CHILDREN

DATE

SOLD TO

ORDER NO.

PURCHASED BY

			PARTICULARS	CHARGES	CREDITS

FORM 5.—DAILY BILLS

Name
Address
City
Registered as

Acct. No.
Coin No.
Limit
Page No.

Old Balance	No.	Date	Items	Charges	Credits	Balance	

Form 6.— ACCOUNTS RECEIVABLE LEDGER

Ledger Sheets.— The Ledger Sheet must be an exact copy of the statement which is rendered. In fact, a carbon copy is most desirable. These ledger sheets are generally loose leaf. A considerable amount of time is saved by one writing of the bill, statement and ledger sheet with a carbon between, as shown in Form 6, thus giving, at the termination of the month, a written-up statement of the account.

Employee's Ledger of Accounts Receivable.— The volume of business obtained from the coworkers of an establishment runs into quite large proportions. It is customary in all stores to carry what is known as an employee's ledger, in which ledger each coworker is charged (debited) with the amount of purchases, and credited with the weekly payments deducted from their salaries. Receipts for the amount deducted are given to the coworker in order that the amount may be checked up at any time as to its correctness. In most organizations, where the receipt is in use, difficulties arise where coworkers lose part of their receipts and claim more payments than the ledger calls for. To obviate discussions and claims of this sort, duplicate records are carried in the paymaster's office. These not only act as a check to the employee's ledger in the bookkeeping department, but also support the entries made in the employee's pay roll record, for amounts deducted for charges.

Form 7 is used for this purpose. The coworkers receive a card on which their name, address, and department are given, also the amount of their purchases, and the date when the purchase was made. Each week when the paymaster makes a deduction from their salaries for the amount to be applied against their purchase, the paymaster records on this card the date and amount of the payment made, and the balance due. At the time the coworkers receive their pay envelope, they acknowledge the payment on account on this card, with their signature, and

return it to the paymaster, who will place it on file, ready for the next payment. The paymaster must also enumerate the various deductions made for charges which are then

FORM 52 2M 6-18

CO-WORKER'S PURCHASE ACCOUNT

NAME ______________________ NO. ______

ADDRESS ______________________

DEPT. ______________________

SALARY ______________________

REMARKS ______________________

AMOUNT OF PURCHASE $ __________ DATE __________

DATE	PAYMENTS MADE	BALANCE DUE	SIGNATURE

FORM 7.—CO-WORKERS PURCHASE ACCOUNT

journalized by the general ledger bookkeeper for proper posting and application to the employee's ledger of Accounts Receivable. Otherwise the moneys deducted may be passed to the charge account cashier for entry in

Accounts Receivable Subsidiary Cash Book, whence posting distribution is made.

Accounts Payable.—The Accounts Payable are best kept in control by separating the open accounts for merchandise used in trade from those of liabilities covering the burden. This segregation is necessary not only for better accounting but for a better control of the stock on hand, which is described in the daily inventory record.

The control for Accounts Payable is set up by a credit from the summary taken of the purchase journal or the purchase register. It is debited with the returns of the merchandise purchased, less the claims and allowances for expressage or overcharges, less gross cash paid, notes or acceptances, and contra accounts that may affect the Accounts Payable.

In setting up the control balance, a report should be made of the various amounts that are open, either weekly or monthly from past dates. That is, if the Accounts Payable show $100,000 open for January 1st, a report should show, for example, $5,000 unpaid for October, $15,000 for November, and $80,000 for December. This is accomplished without any Accounting problems to contend with, by simply deducting the amount of cash paid during a given month from the Accounts Payable of the same period.

The payments are made retroactive for the previous months, unless payments are made for current indebtedness. Such amounts paid are then applicable to current month liability for open accounts.

Where all liabilities are paid weekly or once a month, the summary or tickler will be of no value. At least four times a year, generally quarterly, an itemized statement showing all debits and credits should be requested from all open accounts for verification as to correctness of the ledgers.

Dr.	Accounts Payable Control		*Cr.*
Cash and Discount	....	Balances	....
Notes	....	Purchases	....
Acceptances	....	Disallowed claims	....
Returns	....	(through journal)	....
Allowances	....		
Claims	....		
Contra accounts	....		
	....	Balance {Accounts Payable}	....

Transit Accounts Payable.—At all times a considerable volume of merchandise is in transit. While the purchaser is liable for the value of the merchandise in transit, providing the shipper has complied with all the requirements stipulated for merchandise in transit in the orders or requisition placed, the volume of money which this transit merchandise involves depends upon the extent of the organization making the purchase. In many instances, these run up to quite large proportions. It would not be equitable, nor would it conform with modern accounting principles, to eliminate the value of such merchandise in transit from any statement showing the condition of business affairs.

It may be argued that by setting up a liability for merchandise in transit for which an organization is liable, there could not be a proper offsetting debit entry; and that such debit entry, if it were set up, could not be substantiated by a tangible asset. This is readily overcome by setting up an entry as follows:

Dr. Transit companies.
Cr. Accounts Payable in transit.

The Transit companies are liable to the consignee for any merchandise shipped to them, thereby giving a tangible offsetting entry for the establishment, and a liability to the consignor.

When the actual merchandise is received, the journal

entry set up to account for the liability is to be reversed. It is customary for all organizations to produce, monthly, a balance sheet and a profit and loss statement. The accrued liability for transit merchandise should be journalized from bills of lading or shipping receipts, its value being reflected from invoices to cover, or from open orders for merchandise, in order properly to reflect the conditions at each period. This journal for the accrual is reversed after statement has been rendered, unless the method is a permanent book account. Organizations located any great distance from the market of their purchasers should carry a transit account.

Personal Accounts of Creditors.—Not very often does the management of the department store call for a statement showing the amount of merchandise purchased of all its creditors. Ordinarily, the thought upon this subject would be that the ledgers will answer the purpose. However, while it is conceded that the information can be found in the accounts payable ledger, still it does not answer the purpose. For merchandising uses, a well managed accounting department in a department store should render monthly statements, alphabetically arranged and by departments, of the volume of purchases for the month, and the accumulative amount for semifiscal year from each creditor.

In connection with this, the amount of markdowns taken for the month and the accumulation for the semifiscal year should be set up, so that, at a glance, a prospectus will be given of the volume of the purchases and losses taken from original selling. If for any reason the account should be of large proportions, an investigation may be made with the assistance, if desired, of the buyer of the department to show reasons for the extensiveness of the large purchases. Often it may disclose most interesting facts that, but for such statements, would never be disclosed.

A DEPARTMENT STORE IN TEXAS
MERCHANDISE CREDITORS ACCUMULATIVE REPORT

Creditor's Name	Purchases for month	Accumulative purchases	Mark downs	Accumulative Month	Per Cent M. D.	Terms

A large store conducting an extensive merchandising department, and desiring to keep in close touch with its manufacturers and the condition of its merchandise, should have a card record of each creditor. Upon this a complete synopsis of their business relations should be depicted. These will include:

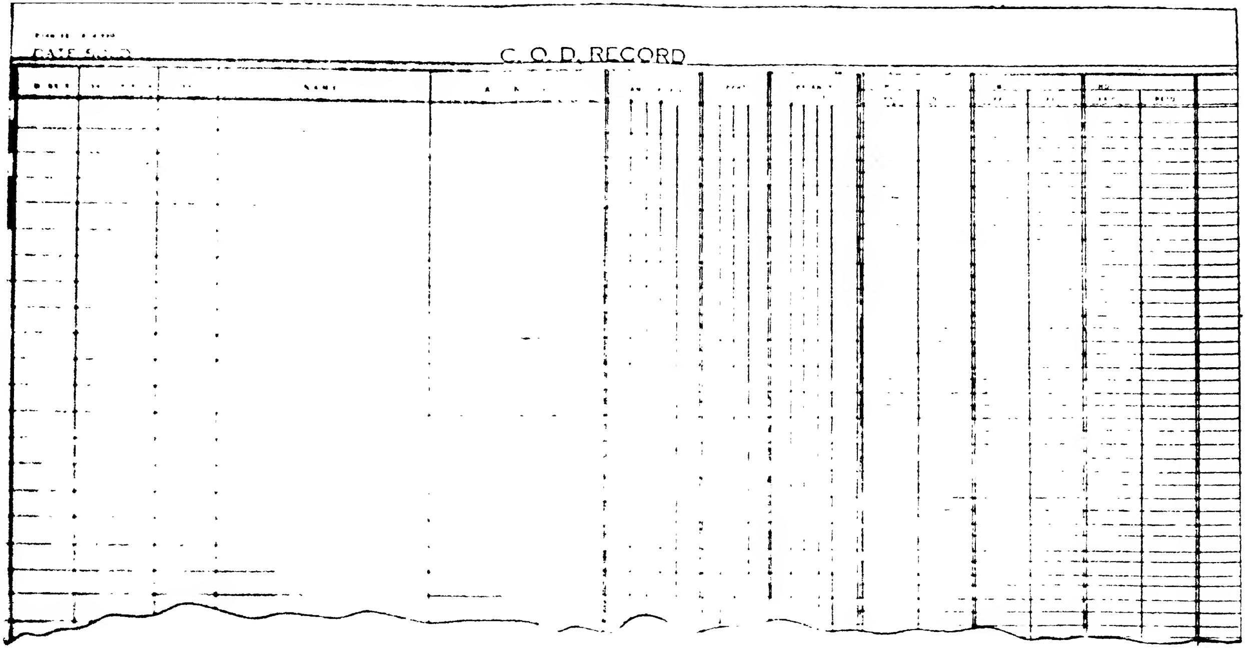
Creditor's name and address.
Purchases for each month.
Average mark-up on original purchases.
Mark-downs for the season.
Terms.
Class of merchandise purchased.
Prevailing selling prices.
How stocks move.
Agency rating.
Controversy registered.
Sold through its salesmen or house.
First order placed.

C. O. D. Ledger.— The statistics of any department store will conclusively prove that the cost of handling a sale is greatest when it is a C. O. D. The amount of returns from C. O. D. sales vary from 12 to 50 per cent. The great percentage of such returns necessitate a very clear record of all sales within the shortest time possible after the C. O. D. sale has been effected.

Each C. O. D. sale, as it arrives in the delivery department for delivery to the customer, receives a number. This number corresponds with a tag upon which a C. O. D. check is pasted. It is entered by consecutive numbers in the C. O. D. record, as shown in Form 8. The amount of the C. O. D. on this sheet will appear in the balance column set up for the purpose.

The driver or chauffeur in charge of a delivery conveyance must account for each C. O. D. item either by cash or by the merchandise itself. An open list of the C. O. D.'s unaccounted for is set up every day and traced in order to close any open entries that may have been omitted clerically. At the end of each month, a complete open list is set up which can properly be termed a trial balance, which amount must equal the general ledger account known as Open C. O. D.'s. A control for this is set up from the amount of C. O. D. sales, less credits either for merchandise returned to stock, claims, allowances, or any other form of credit that may arise that would be applicable to this account.

Fraudulent accounting may be more numerous in the C. O. D. records than the accounts receivable ledger. Tests should be taken as often as conditions will permit to reconcile the total C. O. D. collections with the entries in the C. O. D. record or ledger. When an open C. O. D. is credited with merchandise returned, the buyer's signature or buyer's assistant's signature and floor superintendent's signature acknowledging the receipt of merchandise to the department as a customer's return, should appear on a



FORM 8.— C. O. D. RECORD

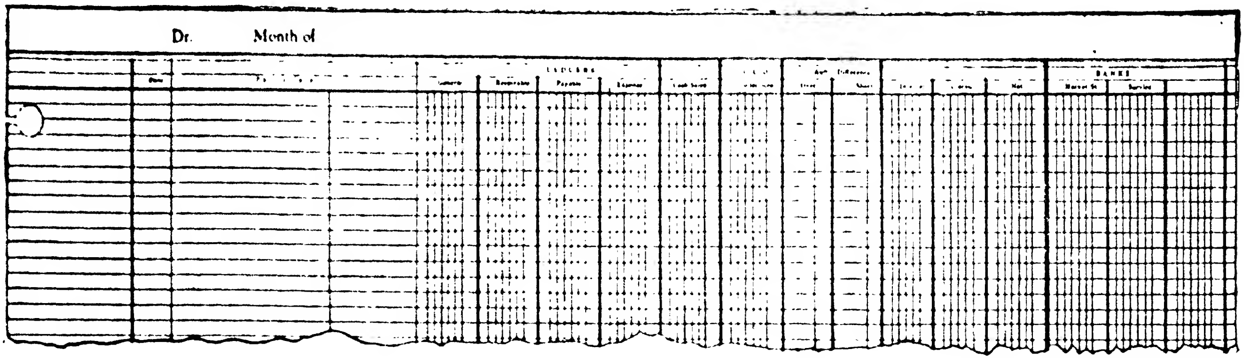
regular form card. This card should be kept in its numerical order under the C. O. D. number so that a verification for the correctness of the record entry can be substantiated.

The total cash entered in this record must correspond with the C. O. D. column provided for in the cash book. The audit department of the office usually check back the C. O. D. entries covering the sales affected.

In order to eliminate variances of the trial balance, the C. O. D. ledger clerk should balance the daily footings with the audit as compiled in the auditing department for both sales, credits and balance C. O. D.'s.

Cash Book.— The department store Cash Book in a measure is not any different in principle from the Cash Books carried on by any other business. Fortunately, these cash books are not kept by one person; at least, they should not be kept by the same person who has charge of the actual cash or the handling of checks. A general Cash Book, with subsidiary cash books, controls the entire cash records. The general Cash Book is divided into two sections: Cash receipts, better known as the Debit cash — wherein all cash receipts are entered; and the disbursement cash book, wherein all cash payments are recorded (Forms 9 and 10).

The well organized accounting office will have all cash receipts deposited in the banks daily, provision for this deposit being set up in the Bank column of the Cash Book. Likewise, all payments will appear in the bank column provided in the Disbursement Cash Book. The footings and difference between the debit and credit should be reconciled with the regular periodical bank balancing of the company's banking account. This will give a verification of the correctness of the Cash Book after the checks that have not been cleared have been deducted from the bank's balance statement. Subsidiary cash books for accounts receivable or payable in detail support general cash book entries.



Form 9.—CASH BOOK RECEIPTS

Month of 19

	No.	Particulars	Ledgers									Banks		
			General	Rec'le	Payable	Burden	Discount	Tel & Tel	Interest		Net			Service

FORM 10.— CASH BOOK DISBURSEMENTS

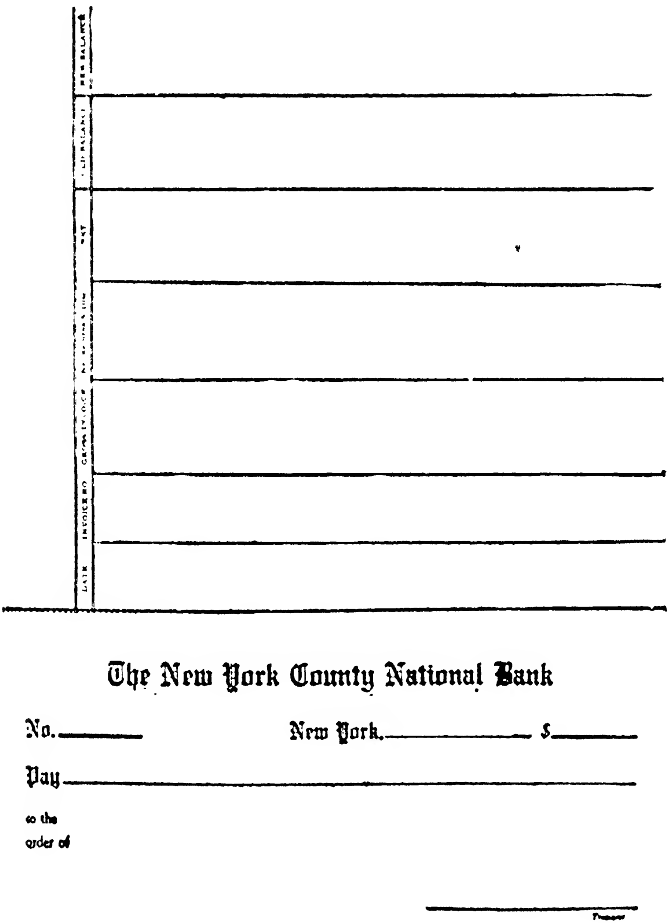
Chief Cashier.— The terminology of Chief Cashier must not be interpreted as meaning a person to whom all cash receipts and disbursements must pass in. Such persons do not exist in department stores, and, in fact, should not be permitted under any condition. The Chief Cashier is the person who is head of the various cashiers stationed in the departments throughout the establishment. Some stores have a pneumatic tube system, generally centralized in the basement of the store, or on the top-most floor, where a number of cashiers are seated and make change. Still other stores have a number of cash registers where either cashiers are employed or sales clerks make their own change and wrap their own packages of merchandise sold. Regardless of the form in which the cash is received from the results of a sale of merchandise, the total cash for the day must be turned over to the chief cashier after the closing of the store for the day's business.

Chief Cashier's Duties.— It is important that the chief cashier record in a record book (generally a yearly diary is sufficient or a columnar journal record) the amount of cash and checks or money orders turned in by the various cashiers. The money is assorted and a duplicate deposit slip made of her bank deposit. The duplicate deposit slip acknowledged by the receiving teller of the bank and the bank pass-book, where a bank retains the old banking methods, must be passed over to the bookkeeper in charge of the general cash books. He makes the entry of net cash received from sales. The auditor-in-chief will then reconcile the cash audit with the bank deposit.

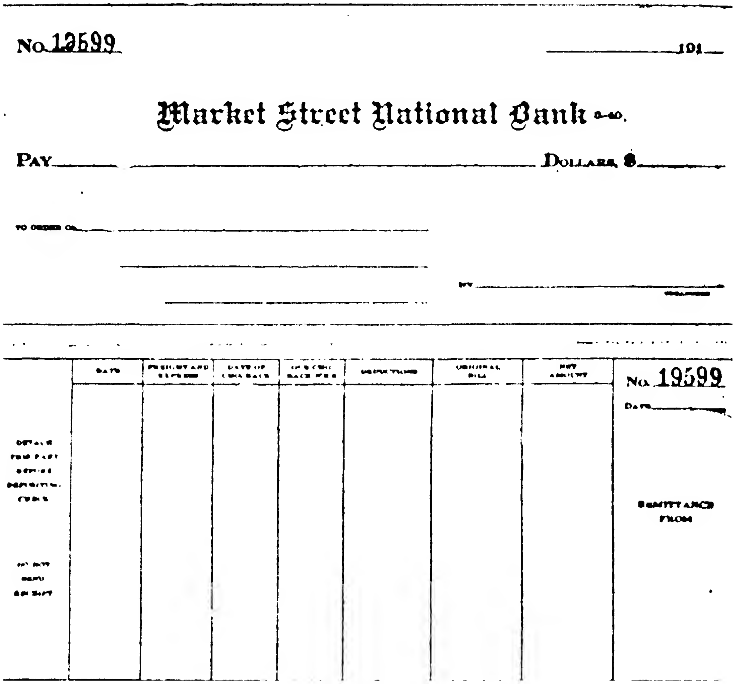
Unfortunately, every government contends with counterfeiting of its currency. The secret service branch of the treasury department maintains a vigilance over such criminals. A publication issued periodically gives notice to citizens of counterfeits detected. The Chief Cashier should

be in touch with these publications and keep the subordinate cashiers informed of counterfeits in circulation.

All C. O. D. collections are deposited with the chief cashier, who makes a separate record of such receipts and a separate deposit with a separate entry in the general



FORM 11.—VOUCHER CHECK RECORD


No. 19599 191

Market Street National Bank

PAY DOLLARS $

No. 19599

Form 12.— Voucher Check Record

cash book. The separate entry is set up for auditing purposes and for the C. O. D. control in the general ledger.

Bank Checks.— The payment of moneys, whether for accounts payable, pay rolls, or moneys drawn for any purpose, should be in a voucher form. That is, the check payable should have a detailed statement on the face of the check, or a perforated attached statement on which the detail of the remittance is shown. The duplicate of this voucher is used as a subsidiary cash book, from which a duplicate listing is made on a summary sheet, completing the subsidiary cash book. The daily totals of payments are

transferred to the general cash book and the banking control accounts.

Recent judicial decisions are to the effect that a statement showing the obligations for which a payment is made or a settlement intended should appear on the face of the check. The foregoing method of payment of check vouchers could then be replaced by the process as described under " Burden Vouchers " (Forms 11 and 12).

CHAPTER II

BOOKS IN USE

Coworkers Card Record.— All coworkers, at the time of their employment, receive a Record Card which is kept in the paymaster's office. This record not only gives the original date of employment, but the history of the coworker. From time to time, the various characteristics or the disposition of the coworker is recorded for information which may be required at a moment's notice. A duplicate in greater detail is kept at the employment office.

Departmental Salary Reports.— An abstract is taken from the pay-roll ledger and commission record, and a weekly report made on Form 13. Under the various days of the week, the amount of each sales person's sales and returns is given, and the total amount of his sales for the week. One copy is given to the buyer or manager of the department and one to the Superintendent of employment. With this abstract of the weekly sales help report showing sales production, a careful record is kept of the workings of each person. At the same time, if there are any mistakes occurring in the paymaster's office, the Superintendent of employment and the manager of the department are in a position to detect errors which would otherwise escape notice, and which perhaps no accountant could possibly discover.

Coworkers Census.— Perhaps the most neglected detail of accounting is the pay roll of a business establishment. While it does not seem possible for this to be a fact, the accountant will reconcile the bank checks and neglect this greater avenue without comment. It therefore behooves that the construction of a pay-roll system be as near

DEPARTMENT ____________

WEEKLY CO-WORKERS SALES RECORD

WEEK ENDING ____________

QUOTA $ SALARY WEEKLY SALES % COST NUMBER OF CO-WORKERS

No.	NAME	MON	TUES	WED	THUR	FRI	SAT	TOTAL SALES	TOTAL RETURNS	NET SALES	LESS QUOTA	OFF	COM	P. M. S	SALARY EARNED	TOTAL SALARY

FORM 13.—DEPARTMENTAL SALARY AND SALES REPORT

perfect as possible. Outside auditors at best will either make test audits or check up a single week.

Though the author has previously made mention of payroll reports, such reports could not be complete without a weekly census. The effect produced in the presentation of a weekly census is the enumeration of all the coworkers on the pay roll of the establishment, including executives, owners or corporate members receiving a remuneration for their services, the number of employees only being required, not the names.

The employees of the store are separated into three groups: One is the selling group, which comprises the places where salesmanship and the assistance of salesmen are required in order to sell the merchandise to the customers. These employees are equivalent to productive labor in manufacturing organizations. Next in line are the non-selling employees. These are coworkers who take no part in the selling of the merchandise. The workroom employees make up the third group.

The workrooms in the department store may be many. Most common of these are the wearing apparel, upholstery, art or decorators, and millinery workrooms.

The number of coworkers in a department and the amount of the pay roll, both for the current year and past year for a given week, should be set up side by side for a quick comparison. It is important that an increase or decrease over the previous year be set up so that it may be compared with the volume of sales for the same period.

All departments are segregated, including the nonselling and the executives. The weekly census is a complete analysis for the entire pay roll of the establishment (Form 14).

Statistics allow a stipulated amount for salaries for the various departments of a store in accordance with the volume of trade. These statistics, with the census, enable the management to control the pay-roll burden of the establish-

CENSUS FOR THE WEEK ENDING

	CO WORKERS 19	19	PAY ROLL 19	19	$ INCREASE OR DECREASE 19	19	ACCUMULATIVE 19	19
Selling								
Non-selling								
Work room								
Total								
Sales								

DEPT. A

	EMPLOYEES 19	19	PAY ROLL 19	19	INCREASE OR DECREASE
Selling					
Selling contingent					
Stock					
Stock contingent					
Total					
Sales 19					

DEPT. AA

	EMPLOYEES 19	19	PAY ROLL 19	19	INCREASE OR DECREASE
Selling					
Selling contingent					
Stock					
Stock contingent					
Total					
Sales 19					

DEPT. B

	EMPLOYEES 19	19	PAY ROLL 19	19	INCREASE OR DECREASE
Selling					
Selling contingent					
Stock					
Stock contingent					
Total					
Sales 19					

DEPT. BB

	EMPLOYEES 19	19	PAY ROLL 19	19	INCREASE OR DECREASE
Selling					
Selling contingent					
Stock					
Stock contingent					
Total					
Sales 19					

DEPT. C

	EMPLOYEES 19	19	PAY ROLL 19	19	INCREASE OR DECREASE
Selling					
Selling contingent					
Stock					
Stock contingent					
Total					
Sales 19					

DEPT. CC

	EMPLOYEES 19	19	PAY ROLL 19	19	INCREASE OR DECREASE
Selling					
Selling contingent					
Stock					
Stock contingent					
Total					
Sales 19					

DEPT. D

	EMPLOYEES 19	19	PAY ROLL 19	19	INCREASE OR DECREASE
Selling					
Selling contingent					
Stock					
Stock contingent					
Total					
Sales 19					

DEPT. E

	EMPLOYEES 19	19	PAY ROLL 19	19	INCREASE OR DECREASE
Selling					
Selling contingent					
Stock					
Stock contingent					
Total					
Sales 19					

FORM 14.—EMPLOYEES' CENSUS

ment. Often the management may call for a detailed list giving the names of the coworkers reported on the census. This will prevent or detect fraudulent names or doctored pay rolls.

Paymaster.— The functions of the Paymaster are numerous. They are not merely the paying of salaries. He has to keep records which, while they do not call for bookkeeping with a trial balance, yet require that the check

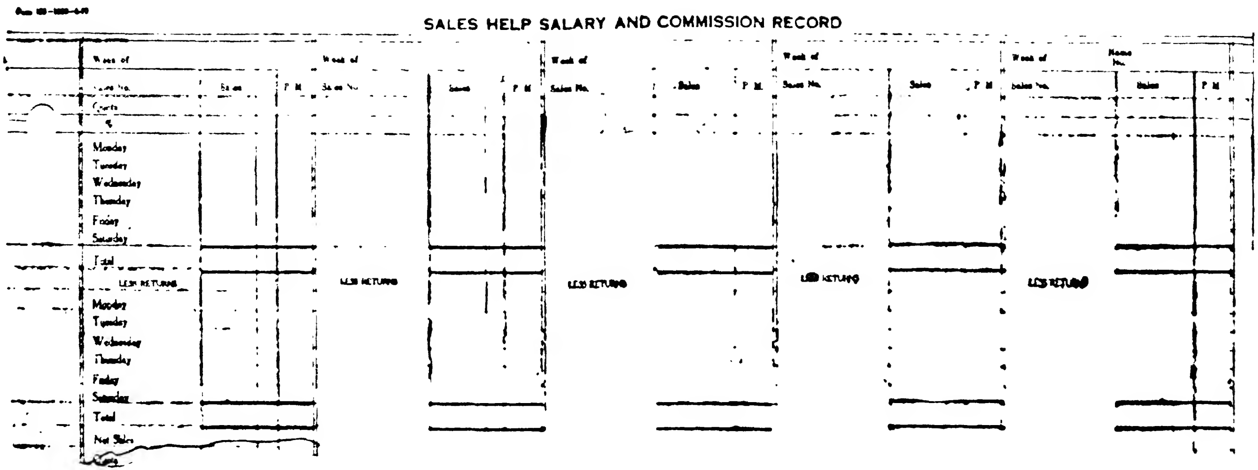
that is requisitioned for salary payment must be substantiated with a summary of the payments to be made and supported by an analysis of all details of the books of record kept at the Paymaster's office.

Pay-Roll Records.— Several books and records are required for a complete record of the Paymaster's office. The enormous amount of money that is paid from this office makes it important that such records be kept, and that an audit can be made without any difficulty in reconciling the checks requisitioned for the pay roll. It is likewise important to mention that no money for salaries or commissions should be paid unless a regular bank check is drawn for the purpose.

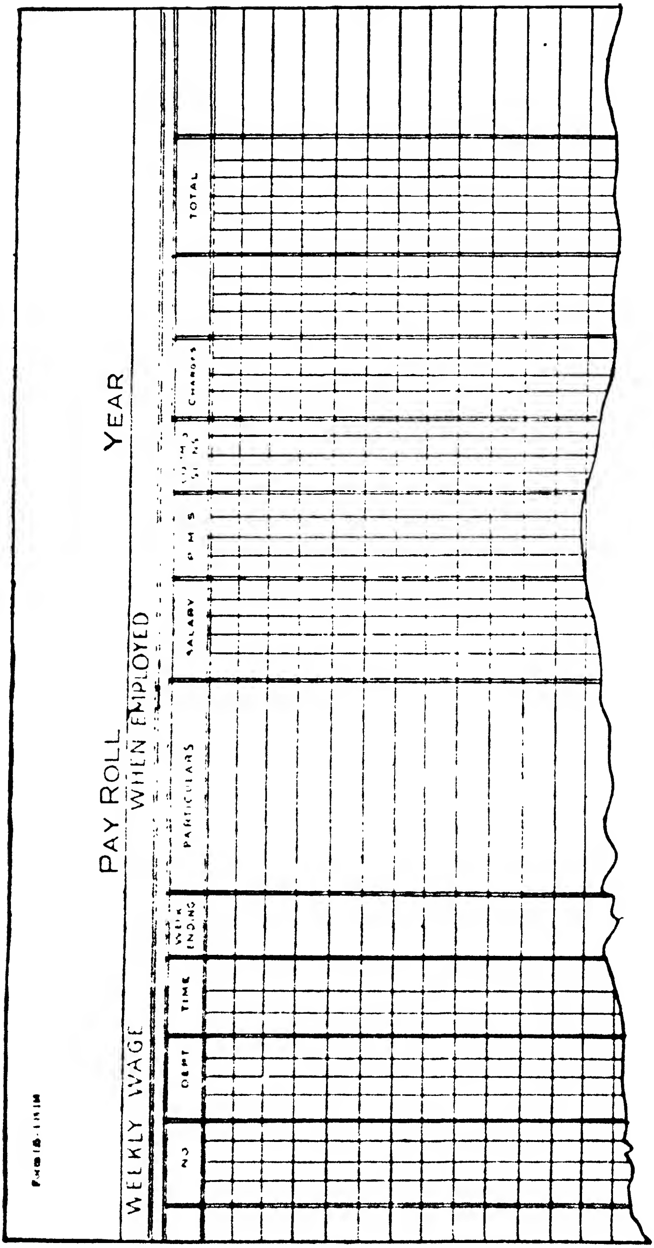
Commission Records.— Coworkers in department stores are employed on straight salaries. However, there are departments in which sales help receive not only a straight salary (weekly), but a bonus or a commission on the amount of their sales above a stipulated amount, which in store parlance is known as a quota.

On Form 15, an ideal record is given. Each coworker is given a page on which her record is kept. The amounts of her daily sales are entered and provision is made for returns by customers from previous sales. This information is obtained from the auditing of the sales check branch of the general office. At the end of the week, the net sales of the sales person are obtained and her quota deducted, giving the net difference on which a stipulated percentage rate of commission is paid.

P. M.'s.— The terminology of the letters P. M. refers to a premium given for the sale of classified merchandise. It is sometimes given for the sale of merchandise beyond a given amount. These P. M.'s are generally obtained from the index or tally card of the individual sales person's sales book. They can be authorized by the buyer or the buyer's assistant of the department in which the sales per-



Form 15.— COMMISSION RECORDS


WEEKLY WAGE
PAY ROLL
YEAR
WHEN EMPLOYED
NO
DEPT
TIME
WEEK ENDING
PARTICULARS
SALARY
TOTAL

RM 16

son is employed. The signature of the authorizer must appear for the amount issued. If a floor superintendent is employed, the privilege of authorization is extended to his office.

When the amount of commissions and P.M.'s for the week is determined by setting up the total in the commission record, the result is transferred to the general pay-roll records.

Pay-Roll Records.— The accountant is familiar with many forms of pay-roll records. Those generally in use are a combination of employee's records and time. Others are the time clocks either by card or sheet. Some stores have time clerks to register time. The employees call their numbers, and their time is registered in and out. Still others have punch cards which are turned in at the end of the week for computation of their salary. For the purpose of the system described here, a card punched by the coworker is used by a time clock, registering in and out four times daily. At the end of the week, the time or number of hours' service rendered is entered on the pay-roll record and the amount of salary earned is extended. Each clerk will have his own ledger page (Form 16).

A column is provided for charges that may be deducted. These charges against the coworker may be for merchandise, lateness or other items that may occur during the course of business. The final sum of the coworker's income for the week is extended in the total column.

Government Requirements — *Information at Source.*— The Revenue Act of 1918 requires returns to be made by various persons and companies. These returns are not meant to be used as a basis for computing and assessing the tax on the person or company making the return, but to furnish the revenue officers with accurate information. The Act reads:

"That all individuals, corporations, and partnerships, in whatever capacity acting, including lessees or mortgagors

of real or personal property, fiduciaries, and employers, making payment to another individual, corporation, or partnership, of interest, rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed, or determinable gains, profits, and income (other than payments described in sections 254 and 255 pars. 197-198) of $1,000 or more in any taxable year, or, in case of such payments made by the United States, the officers or employees of the United States having information as to such payments and required to make returns in regard thereto by the regulations hereinafter provided for, shall render a true and accurate return to the commissioner, under such regulations and in such form and manner and to such extent as may be prescribed by him with the approval of the secretary, setting forth the amount of such gains, profits, and income, and the name and address of the recipient of such payment."

In quoting the provision of the income tax, it can readily be seen that not only a ledger record is kept to coördinate with the requirements of the Federal government, but also an excellent record for setting up and auditing the payments for salaries, commissions, premiums, charges, etc.

Mark Ups.— The mark up of merchandise refers to the percentage or the amount of money added to the cost in order to obtain the selling price.

In a manufacturing organization, an extensive cost accounting system should be conducted in order to obtain the cost of production. When the final cost is obtained, the profit should be added thereto, to set the market price. This profit added to the cost may also be termed a mark up. Some methods used by manufacturing organizations will be termed "Cost plus." The plus may also be termed "Mark up." The department store, however, has no cost accounting in the manner conducted by the manufacturing organization, as the merchandise is purchased direct from the

Form 65A 25B 9-18

DATE ______________ MARK UP DEPT. ______________ No. 199

DATE REC'D	STYLE NO	MFG NO	LINE NO	WHEN RECEIVED IN STOCK	COST	ORIGINAL SELLING PRICE	PRESENT SELLING PRICE	INCREASED TO	QUANTITY	DIFFERENCE	TOTAL	MANUFACTURER	REASON

BUYER AUTHORIZED BY

FORM 17.— MARK UP

manufacturer, importer, wholesaler, or jobber. Sometimes, after adding transportation charges to receive the merchandise in the store premises, the allotted percentage of profit expected from the department must be marked at a stipulated amount that will bring the revenue required to cover the profits for a particular department.

The correctness of the mark up for the various departments is given considerable attention, a record for which is kept and set up in a daily inventory record. Some stores will control mark up at the percentage added to the cost, others by the percentage of profit that the mark up will produce. Exemplifying this, the cost of an article is $10. A required mark up of 50 per cent must be added to the cost to obtain the selling price, giving the selling price as $15. If a percentage of profit is required of 25 per cent, the selling price would be $13.33 or 33 per cent mark up on the cost. Profits are not calculated at the cost of a commodity. They must be produced from the selling price.

While a department must produce a stipulated percentage of profit, merchandise can not always be marked through a table rate. The value of the commodity to society or the community must receive every consideration, likewise sales promotion may find it necessary to sell merchandise at cost or at a very low percentage of mark up. Generally, the overhead necessary properly to manage a department, plus the policy of the store margin to required profit, formulates the mark up percentage.

Mark Downs.— The mark down problem is an extensive one, and every phase of merchandising must be taken into consideration. The terminology of mark down is a reduction in the selling price of an article regardless of its classification or the department in which it is carried for sale.

There may be several reasons why a mark down is taken. The most common reasons are, that merchandise having been carried in stock longer than is deemed advisable, must be

[illegible]

DATE__________

MARK DOWN

DEPT.__________ No. 398

DATE REC'D	STYLE NO	MFR'S NO	LINE NO	WHEN RECEIVED IN STOCK	COST	ORIGINAL SELLING PRICE	PRESENT SELLING PRICE	REDUCED TO	QUANTITY	DIFFERENCE	TOTAL	MANUFACTURER	REASON

AUTHORIZED

FORM 8.—MARK DOWN

MANUFACTURER ____________ NO ________

MARK DOWN RECORD

FORM 174 8 16 3M DEPT ________

	DATE	OUR No.	MFR No.	Lot No.	Date Received	COST	LAST SELLING	FIRST M.D.	SECOND M.D.	Quantity	TOTAL M.D.	Final Total M.D.	PURCHASES	REASONS

FORM 19.—MARK DOWN RECORD

reduced in price in order to effect a quicker sale. Or the merchandise may be what is known as "style goods," which are affected by the change in seasons and new creations. Then, too, other reasons for mark down may be shop worn article, deterioration of goods, a department's becoming stagnated and not producing the volume of business which is expected. It is necessary, therefore, to reduce the merchandise, and create a sale in order that the proper turnover may be accomplished. Form 18 is a mark down record, which gives the detail of the merchandise being marked down, the amount of cost, original selling price, the amount of the reduction, and the reasons for such mark down, together with the proper executive authorization.

From an accounting viewpoint, the reason for the mark down is irrelevant. But it is a prime factor in obtaining correct results since the proper control of daily inventory is maintained at the retail prices for perpetual inventory.

The mark down of merchandise will also affect the required profit of the department. Therefore, in order that a complete record may be kept, a mark-down book becomes one of the essentials of the accounting system, as shown in Form 19. The individual mark-down sheet, as described in Form 18, is entered individually, giving the house number, which is a number given for ready reference to all articles placed in stock, manufacturer's number, where the article was obtained. The line number refers to certain classes of merchandise that are known by color, for the better description of the class of merchandise carried in stock. The date when the merchandise was received in stock is necessary. This information is required in order to keep check on merchandise which is offered for mark downs. Also the length of time that the merchandise has been on the premises must be known. In short, unless an adequate reason is given, the mark down is impossible. The cost and last selling price are required to be entered.

A certain class of merchandise may have several mark downs, after receiving its first. If its selling price is not sufficient to create its sale, a second mark down is necessary. Oftentimes a third is required. The quantity of pieces which have gone to mark down is then extended at the difference between the first and last mark down, and the final total is arrived at. Daily, these amounts are transferred to the merchandise control record in order to arrive at the correct amount of merchandise in stock for each department.

The mark-down record allows a column for purchases. Each manufacturer is allowed a page, or as many pages as may be required, and the amounts of the purchases are recorded. The object of this is, from a managerial viewpoint, to arrive at the percentage of merchandise marked down that has been received from the various manufacturers, to show the value in trade of the purchases.

Buyers and department managers are prone to abide by the unrelaxing rule governing mark downs. In a well organized merchandising store, a continuation of ignoring the mark-up or mark-down rules is sufficient reason for dismissal, for lost control of the department must surely follow. This, however, is eliminated by the inventory department, which maintains an inventory staff that takes physical inventory of each department at least once a month and reconciles the book inventory. These inventories are taken after business hours.

Retail Reduction Slips.— On all sales, regardless of whether they are cash sales, charge sales, C. O. D. sales, or will call sales, the sales check must agree with the price indicated on the price ticket attached to the piece of merchandise sold.

There cannot be any deviation from this rule, and whosoever permits a deviation, whether to an outside customer, a coworker, or an executive, must be held strictly account-

able for such deviation, and is subject to whatever action the management sees fit to impose.

If a coworker, regardless of his or her position, makes a purchase, the full amount of that purchase must appear on the sales check. If the coworker is entitled to a discount, a retail reduction slip such as Form 20 is to be compiled, with all specifications of procedure printed thereon. The reasons for the reduction must appear on the reduction slip, the date of the reduction corresponding with the same date as the sales check. The department in which the sale has taken place must be specified. The sales person's number must appear on the sales check. The name and address of the party making the purchase must appear as well as the sales check number. The term " loss on " indicates the price for which the merchandise was sold. " The original price " signifies actual price for which the merchandise was originally marked for selling. " The amount of loss " indicates the difference between the original selling price and the price for which the article was sold.

This amount of loss will, in most instances, indicate the amount of discount, or the difference between the original selling price and the price for which the article was sold to the coworker; difference between the cost price and the selling price. Any reduction whatever, or any deviation from the regular selling price for allowances permitted, must be authorized by the superintendent of the floor, or the buyer of the department, or his or her assistant. Such authorization must appear on the line indicated by "Authorized by."

The coworkers, whoever they may be, must sign their names so that they appear in duplicate by the use of a carbon paper, on both the original, which is a yellow sheet, and the duplicate copy of the retail reduction slip, which is pink. The yellow slip must be attached to the sales check and sent to the auditing department in the same manner in which all sales checks are accustomed to be taken care of.

Form 116A 2500 sets 4-19

Retail Reduction Slip

No. 651

Reason ____________________

The only authorized reasons are:

A. Discount to Co-Worker.

B. Allowance to customer for unsatisfactory Mdse.

Date ____________

Dept. ____________ S. P. No ____________

Name ____________________

Address ____________________

Loss on ____________ Salescheck No ____________

Original Price ____________ Amount of Loss ____________

Authorized by ____________________

I, personally, am paying for this merchandise and am entitled to discount.

Co-Worker Sign ____________________

This slip must accompany all discounts, allowances, and deviations from the retail price.

FORM 20.—RETAIL REDUCTION SLIP

If an allowance is made to a customer, the same procedure must be followed. That is, all information must appear on the retail reduction slip properly signed by the authorizer, and the customer should sign her name and address on the line provided for the coworker's signature. The yellow slips are matched up with the pink by the

auditing department to account for any differences and for any missing slips. The yellow retail reduction slips are sent once each week to the statistical department by the auditing department, where the stock records are adjusted.

No matter how stringent the mark downs or the one price of any store may be, occasions arise where a reduction is made on a sale. Especially is this true where a coworker of an organization makes a purchase and special discounts are a privilege. The control of the various stocks must receive prior consideration. The retail reduction slip may be considered as an individual mark-down slip executed to control stocks in addition to other elements.

Sales Record.— Sales customarily understood as orders by the wholesaler or manufacturer, may be divided into three classes:

1. Unfilled orders.
2. Orders in process of manufacture.
3. Filled orders, shipped to the purchaser or the consignee.

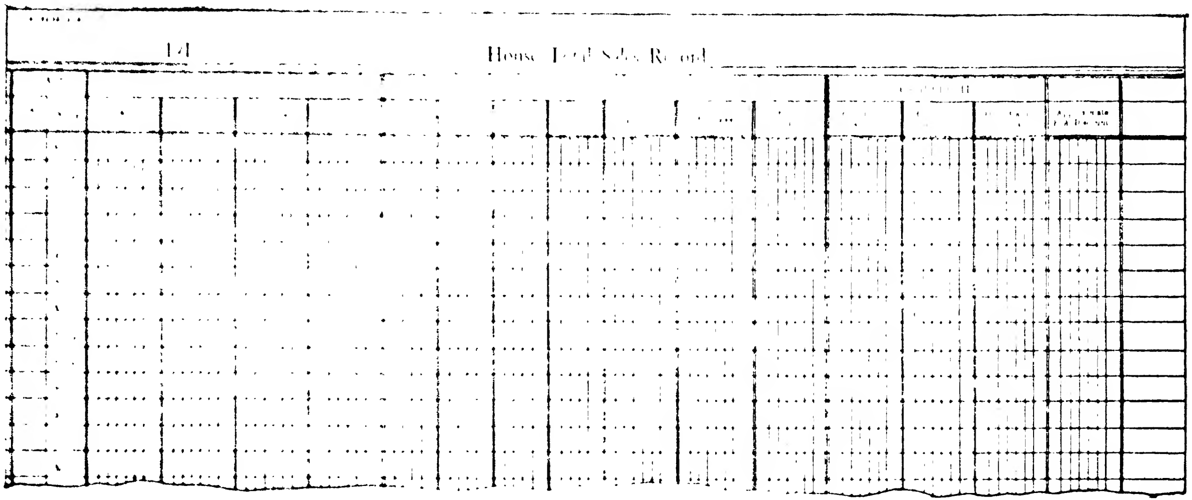
Department store orders are divided into three groups differently interpreted, each of which is an actual sold and delivered classification. These are classed as

Cash sales.

C. O. D. sales and will calls.

Charge sales.

The merchandise, having been sold by the various departments of the store, is recorded by sales checks. These sales checks, which go through a detailed audit, will be recapitulated, giving the total sales of each department for the day. These totals are entered in a columnar record, for which each department is allotted a division with its department number or letter at the head of the sectional division. It is important for good accounting that each classification of sales should be set up on separate pages. The reader will recall the fact that the total column of the cash sales



FORM 21.— HOUSE TOTAL SALES RECORD

in this record must be equivalent to the daily cash sales recorded in the cash book (Form 22).

There are classifications of merchandise, such as clothing for men and women, or furniture, in the case of which considerable importance is attached to the knowledge of the quantities sold. In such instances an extra column should be provided, immediately following the record of sale, designating the value and the quantity sold. The value of this record is considerable for merchandising purposes.

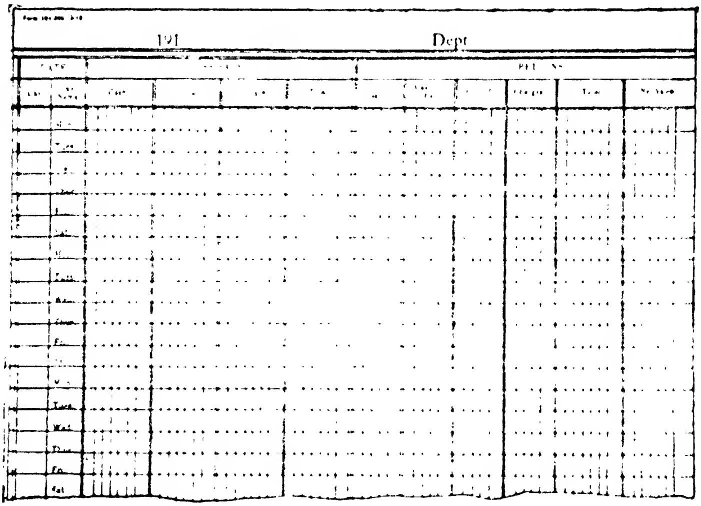
Sales Returns.— The record of the merchandise returned by the customers, whether cash, C. O. D., or charges, is as important as recording the actual sales resulting from the daily audit of all the sales checks.

Return merchandise from sales to the department store is quite a problem. This problem is extensive both from the standpoint of overhead control and of deterioration of the merchandise.

Many of the stores throughout the United States have found the percentage of returns to be of such proportions as to necessitate placing limitations on the number of days during which the merchandise may be kept by the customer. Requests for credit are restricted in some communities. The health departments in many communities have placed restrictions against the return of certain classes of merchandise to the department stores.

In the same way that original sales are recorded in the columnar record best fitted for the purpose of setting up the accounting, the returns should be recorded. A separate record of cash refunds — C. O. D. returns and charge sale credits, including the special column for departments where a record is kept of the quantity sold—should be kept. Where an exchange of a purchase is made, a credit must be made for the return of the merchandise and a new sale recorded. To those unfamiliar with department store pro-

cedure, this may seem an arduous task involving a lot of unnecessary waste. It must be remembered that every action has a definite object. There can be no perfunctory methods, as every link of the store system depends upon its individual strength, upon the efficient coördination of its every detail, as if it were a single unit. A diversion from this procedure generally results in a loss.



FORM 22.— SALES RECORD

Net Sales.— Opinions may differ as to the entry of sales. It may be argued that, deducting the returns from the gross sales, the net sale, which is the objective, should be entered into the sales record, thereby eliminating a considerable amount of clerical work and bookkeeping. To do this, however, would defeat proper accounting and the organization would not be in a position to set up a statistical record to arrive at an analysis of its sales in detail. It would be impossible to control the individual department, to know whether or not the returns are heavier in

some departments than in others, if the percentage has reached greater proportions than the limitations recognized in the trade. The manager should be placed in a position to make investigation, and ascertain the reasons for such returns.

Here we recognize that accounting is not merely a setting up of figures, but that it should be so constructed that any analytical statement is of material benefit to the various managers in furthering the interests of the organization.

Thus we find that a separate record of individual sales, a separate record of all sales, and a separate record of all sales returns must be set up.

Merchandising Terminology.— The term MERCHANDISING defines the commodities that are bought and sold by an organization, including the sales promotion of such commodities. It may also be termed a matter of barter, but the term barter is foreign to the department store.

Daily Inventory.— There are two essentials necessary to control the department store:

1. The net work of the accounting system.
2. The merchandising control which is a nucleus for every element entered into the merchandising problems of a store.

From an accounting view point, the use of this book will give the stock on hand at cost monthly for the balance sheet and the profit or loss statement, also the departmental profit and loss statement. It is necessary that accuracy should predominate at all times. It may be described further as a perpetual inventory of all wares carried on by the organization. The procedure of this record, if begun with an inventory commencing with the fiscal year, must be taken both at cost and selling. The total merchandise received daily as shown in the purchase journal will be transferred to the departmental record in the column set

up for that purpose. The mark downs or mark ups are to be entered in the mark-down column. Generally a mark up is entered in red ink, deducting one from the other in order to arrive at the net mark down (see Form 24).

To compute the figures in order to arrive at the new inventory, the inventory at the beginning of the day, to which the merchandise received is added, will, after deducting the mark downs, give the percentage of profit for the department. One method of ascertaining this percentage is by deducting the total cost of the merchandise from the total detail sales, giving the profit in dollars and cents. This result is used as a dividend, as the divisor will be the stock on hand at retail. The quotient gives the percentage of profit.

The net sales consisting of all cash, C. O. D., and charge sales, less all returns of every description by departments, will be entered into the net sales column and deducted from the previously obtained result, and then extended to the new inventory column, which will be the retail inventory for the close of the day or the beginning of the next day. The net sales must be reduced to an average cost. If the percentage of profit for a department be a stipulated amount, the difference between that amount and 100 per cent must, of necessity, be the cost. That percentage taken from the net sales for the day will give the cost of sales, which result is deducted from the cost of inventory previously arrived at and extended to the new inventory column at cost, completing the cycle for the day, taking into consideration the inventory beginning, merchandise received, less merchandise returned, mark downs, mark up and sales for the day. The inventory of cost is in no way affected by mark downs or mark ups. It will readily be seen that if an article cost $1.00 whether it is sold for $2.00 or whether it is sold for 50 cents, the cost is still unaffected.

Inventory at retail	5,000.00
Inventory at cost	3,600.00
Profit	1,400.00

5,000.00 28% profit mark up

retail inventory | 1,400.00 Profit
1,000.00

400.00
400.00

xxxxx

Cost and profit equals

Sales 5,000			100%
Cost	72%	Profit	28%
Cost	3,600.00	Cost	72%

If a profit of 28 per cent is required on the sales and the cost of an invoice is \$3,600, the invoice will represent 72 per cent of the selling price. To obtain the correct selling price, divide the 72 per cent into the cost of the invoice and the quotient is the retail value or selling price.

		Total cost of selling	100
	5000	Profit desired	28
72	3,600.00	Cost	72
	3 60		

xxx

Divide cost of percentage into cost of the article. The quotient is the selling price.

The clerical help necessary to make the calculations of all departmental records is composed of girls or young ladies. They, it must be remembered, are neither bookkeepers nor accountants. They are untrained, and in order to obtain correct figures, the simplest methods possible must be employed.

Retail Control.— Preference must be given to the control of stocks at retail rather than at cost. Many discussions and numerous writings on this subject have been published. To give briefly the most concrete reasons, the reader will assume that the average percentage of profit for the department is 33 1/3 per cent. The overhead to conduct that department is 32 per cent. At a glance it can be seen what margin of net profit the department is working on.

Again, with the knowledge that the department costs 32 per cent to carry (meaning 32 per cent on the sales) the buyer will make a purchase, and have a mark up of 25 per cent profit. That is, the merchandise will be marked up 33 1/3 per cent *on the cost*, which would be an equivalent of 25 per cent profit on the selling. Knowing that 32 per cent is the overhead and 25 per cent is the profit, an immediate loss of 7 per cent is sustained providing mark down is not taken on this particular purchase to make a further loss.

Retail Inventory Control.— The inventory control as previously discussed covers both cost and retail. Difficulties occasionally arise in maintaining its accuracy. A perfect control is given in Form 25. After many years of experimenting and careful study, this method has proven successful to the utmost degree. Allowances, however, must be given to leakage at least 1/2 of 1 per cent. One of the largest stores in Boston, doing an annual business of over sixteen million, showed a leakage of 1 9/10 per cent for all stocks.

The procedure of Form 25, a sheet for each department.

First column — " Inventory and Purchase Accumulative,"
The cost and retail beginning with the inventory of the fiscal year at cost and retail. Add daily new purchases at cost and retail in their respective columns. The accumulated total on line below is the addition of the daily purchase to the previous obtained total.

Second column — " Purchases received this month."
Enter all daily purchases at both cost and retail. The accumulative amount is shown on the line below by adding the daily total to the previous obtained accumulated total.

Third column — " Accumulated Inventory and Purchases less Mark Downs."
This column, number 3, is the total of the accumulations of number 1 and 2 at retail less column 6, the accumulated mark downs.

Fourth column — " Profit on purchases."
The period column indicates the season. The month column is for daily entries. The interpretation of profits is the amount of money added to the cost for all daily purchases, and is entered daily, the line below being the accumulated entries for the month. This is obtained by adding the daily total to the previous obtained total.

The period will cover from the beginning of the fiscal year; the accumulated profits in dollars and cents are the accumulated amounts added to the purchase price at cost to obtain the retail.

Fifth column — " Profits on Purchases less Mark downs."
The fifth column is similar to that of the fourth in its construction, with the exception that mark downs or mark ups have been considered.

Sixth column — " Purchases Month's percentage."
The percentage of mark up on the daily purchases will

be represented in this column. The accumulative percentage on purchases, giving no consideration to mark downs or additional mark ups, will be identified on the line below which signifies accumulated figures throughout the sheet.

Seventh column — "Mark downs."

Mark downs entered in the period column represent the mark downs taken for the season in accumulated form. The month column, daily mark downs for the month, is on the line below "accumulated for the month." Mark ups are entered in red figures and deducted from previous accumulated total to obtain the new accumulated total.

Eighth column — "Inventory stock Percentage."

It is necessary to know daily the percentage of mark ups that all stocks in a department represent. This column provides for the percentage information, which is obtained by the following process:

The accumulative inventory and purchases divided into the accumulative profits, giving as a quotient the percentage of retail profit on stock carried by a department.

Ninth column — "Sales."

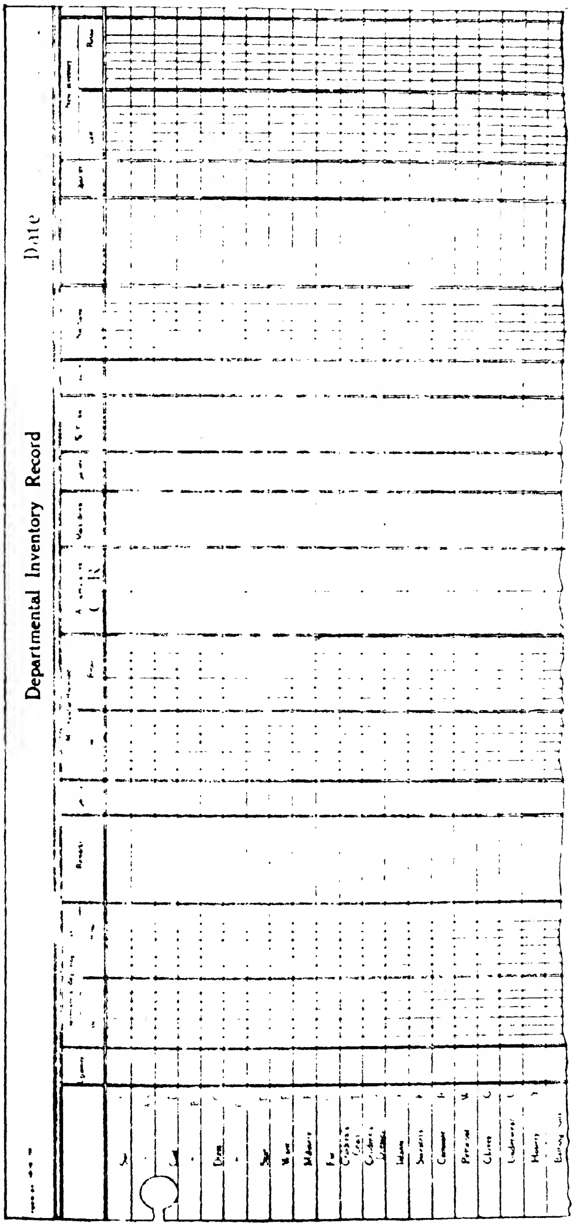
It is important that the net sales be entered daily for the period and daily in the month column, the line below representing the accumulative sales for the period and, in the month column, the net accumulative profit for the month.

Tenth column.

This column is provided for the inventory shown at the close of the day.

Eleventh column.

The accumulative mark up, if no mark down or mark up were ever taken, should be represented in this column.


Departmental Inventory Record

Date

FORM 23.— DEPARTMENTAL INVENTORY RECORD

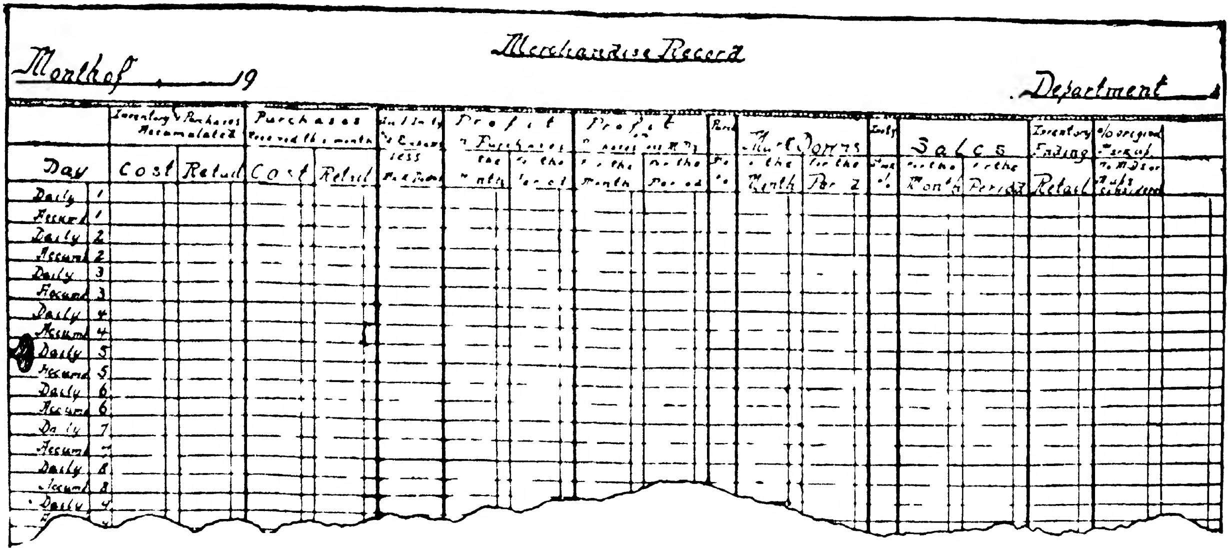
Weather

Merchandise Report at Retail

Sale Held

19

Dept.	Sales: This Mo.	Sales: To Date	Orders: Placed This Mo.	Orders: Total Outstanding		Dept.
A						A
B						B
C						C
D						D
E						E
F						F
G						G
H						H
I						I
J						J
K						K
L						L
M						M
N						N
O						O
P						P
Q						Q
R						R
S						S
T						T
U						U
V						V
W						W
X						X
Y						Y
Z						Z
AA						AA
Total						



FORM 25.—MERCHANDISE RECORD

To Obtain Inventory and Percentage

Daily result:

1 — 7 — 9 = 10
5 ÷ by 1 = 8
4 ÷ by 2 = 6
1 — 7 — 9 = 10

Accumulate.— Same procedure as above, using accumulated figures.

In closing books for the month or year to obtain cost of inventory, column 11 or percentage of mark up, if no mark downs or additional mark ups were taken, is to be used. This will give a lower cost of inventory and provide for depreciation of value for stock disposal.

Form 24 is a summary of the working sheet as shown on Form 25.

Advertising Records.— One of the most extensive and largest items of a department store's burden is the advertising of the store and its wares. Cognizance must be taken of the fact that good accounting procedure can be argued as to whether or not the entire expenditure for advertising can be termed properly " An expense for operation." Perhaps a store that has been organized for a good many years wishes to incorporate its affairs or place the organization on the open market for sale. There is no question but what a good will account would be established, and a value placed on the name of the organization for its value in the community. While good will appears on the assets of a company in a class by itself, its tangibility, like all other good will accounts, cannot be considered as an asset for the purpose of obtaining credit unless its earning powers are of a substantial nature. Yet, while the organization is in activity, a good will which represents the good name and earning power of the department store is of intrinsic value in the community where it carries on trade. The basis of the

good will would then be established. It would be established from the extensive advertising which the store conducts, the policy pursued and substantiated by supporting such advertising with good value to the trade of the merchandise it carried in stock. However, the expenditure for daily advertising in a newspaper or periodical, or in direct advertising, including the cost of maintaining the advertising office, is properly charged to advertising. Such advertising should be distributed properly, and charged to the various departments who participate in the daily advertising.

Where a store has quite a number of departments and all the departments do not advertise, the question arises as to what portion of the space occupied by the name and address and editorials contained in the daily newspaper and other advertising mediums should be distributed to such a department. A department that has not advertised should at least bear the burden of cost for the space used to advertise the name and address of the company, along with the editorials. For it is but reasonable to argue that the various departments which did advertise were the means of bringing a certain number of people into the store. Such people passing through the departments which have not advertised, may be prompted to make purchases from the merchandise on display. Some organizations will only charge advertising to such departments as advertise in the daily paper. Those who do not advertise are not charged for anything. This is the policy of many a store, but it fails in making logically a proper distribution for the advertising cost.

Advertising is charged for at either a stipulated amount per line or per inch. In the larger cities it is charged at the line rate. The proper method of setting up the cost and distribution by departments should be followed daily. The procedure is to ascertain the total number of lines to a col-

umn and multiply by the number of columns or parts of a column in which the ad is set up. There are nine lines to an inch, and the number of inches in each column multiplied by the columns or fraction thereof used will give the total amount of lines used for the daily advertising. The columnar record is then set up, of which usually the date column to the left of the page will be used for the dates covering the entire month. The various departments will be designated at the head of the column, and the amounts of space used and the cost in dollars and cents are set up alongside of each other, a daily total column cost for the advertising.

In addition to this, other advertising matter which may come from indirect advertising is set up as an additional cost in the same record, thus giving, at the end of the month, the total amount of advertising utilized by the various departments and the amount of space used, so that a statistical record may be set up and a comparison made from year to year.

Discount Records.—In treating this subject, this term is applied to cash discount received from the payments of obligations at maturity, other than negotiable instruments. The discount question is one that runs into quite large proportions.

There are many organizations throughout the country in the retail business that are satisfied to conduct their affairs so that their wares carry a sufficient mark up to cover their entire overhead, depending upon the discount earned to produce their profits. The importance is readily established in the foregoing statement of showing the necessity of carrying a complete record of discounts earned. Two methods are applicable. One is, after entering the merchandise received in the invoice register, to set up the discount immediately alongside of the liability incurred. The other is to set up the discount in a discount record at the

time that the discount is earned, when making the remittance. A form is not given for this record for the reason that a regular columnar journal is sufficient for the purpose. The record that is set up of discounts earned is not a substantial figure to appear in a general ledger. The actual discounts earned at the time of making the remittance for an obligation that appears in the cash book are the only figures relating to discount that should appear in the general ledger and, from there, on the Profit and Loss statement.

Where the discount is entered in a purchase journal upon receipt of invoice, several journal entries are necessary for monthly closing.

Purchase Journal Record

Date	Invoice No.	Register No.	Account Name	Dept. 101		Selling
				Discount	Cost	

From Purchase record

Dr. Discounts from merchandise purchase——

Cr. Unearned discounts ——

From cash book (Posting direct) or through journal vouchers

Dr. Unearned discount.

Required Discounts.—Perhaps there is no other line of commercial affairs that would set up an account known as Required Discounts. The store may require a uniform discount to be earned by every department, whether the department itself receives credit for such earned discount, treated as an additional income to the department, or the discount earned is simply passed to the credit of the administrative branch of the establishment. A specific discount must be earned by the departments. Exemplifying this, a department is required to earn a discount of 7 per cent. The particular department may be the glove department. The prevailing discount allowed in the glove trade is 2 per cent. The buyer of merchandise cannot influence the manufacturer to accede to his terms. He will either add the difference of 5 per cent to the cost of the merchandise or, should the merchandise be covered by the discount of 2 per cent when the merchandise is received at the store, an additional 5 per cent is charged to the merchandise and credited to the required discount. The difference of 5 per cent is set under a separate accounting record, known as Required Discount.

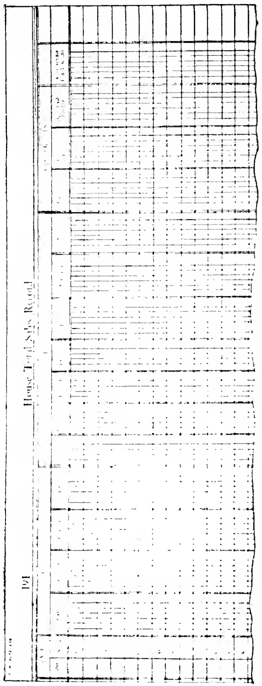
Storage Record.— All stores of any size carry reserve stock. This seldom applies to wearing apparel such as ladies' outer clothing or men's outer clothing, though at times furs and overcoats may be carried on from one season to another. Reserve stocks are those of underwear, hosiery, house furnishings and the heavier wares carried on in trade by the department store, with the exception of style stock.

A warehouse or storage may be kept on the premises. Or if the volume of business of an organization is such that all space is required for selling purposes, outside warehouses or storage buildings will be used for such reserve stocks. To merchandise a store properly, and in order that an accurate accounting record be kept, the perpetual inven-

STORAGE RECORD

Record of Description RECEIVED									DELIVERED to Departments						
LOT NO.	DATE	SEASON	DESCRIPTION	COLOR	COST	RETAIL	QUTY.	RETAIL & VALUE	QUANTITY OUT	COLOR	STYLE	SEASON	DATE	REMARKS	DEPT.

FORM 26.— STORAGE RECORD



FORM 21.— HOUSE TOTAL SALES RECORD

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There are classifications of merchandise, such as clothing for men and women, or furniture, in the case of which considerable importance is attached to the knowledge of the quantities sold. In such instances an extra column should be provided, immediately following the record of sale, designating the value and the quantity sold. The value of this record is considerable for merchandising purposes.

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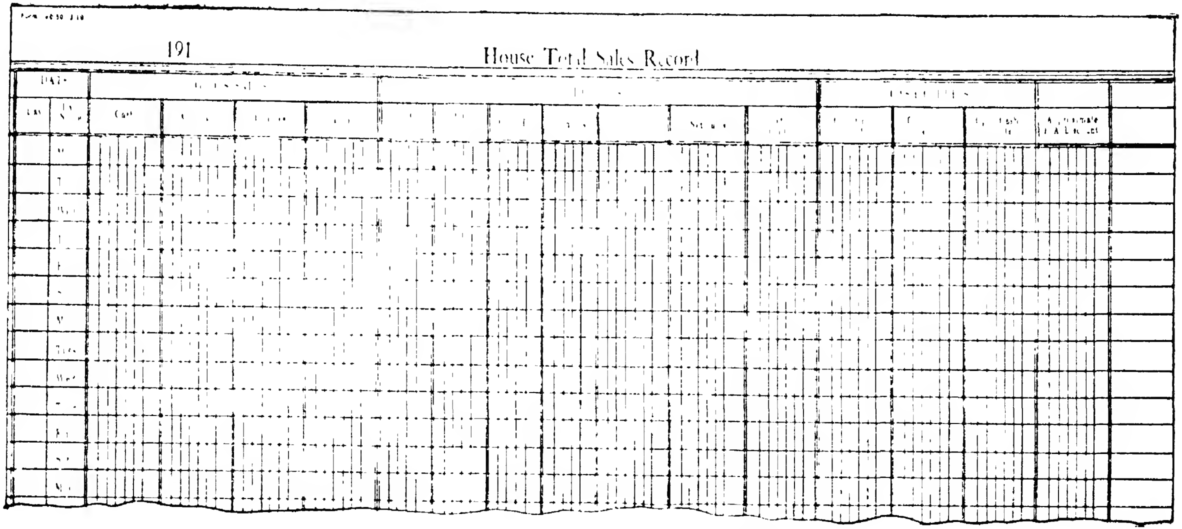
Return merchandise from sales to the department store is quite a problem. This problem is extensive both from the standpoint of overhead control and of deterioration of the merchandise.

Many of the stores throughout the United States have found the percentage of returns to be of such proportions as to necessitate placing limitations on the number of days during which the merchandise may be kept by the customer. Requests for credit are restricted in some communities. The health departments in many communities have placed restrictions against the return of certain classes of merchandise to the department stores.

In the same way that original sales are recorded in the columnar record best fitted for the purpose of setting up the accounting, the returns should be recorded. A separate record of cash refunds — C. O. D. returns and charge sale credits, including the special column for departments where a record is kept of the quantity sold—should be kept. Where an exchange of a purchase is made, a credit must be made for the return of the merchandise and a new sale recorded. To those unfamiliar with department store pro-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House Total Sales Record

FORM 21.— HOUSE TOTAL SALES RECORD

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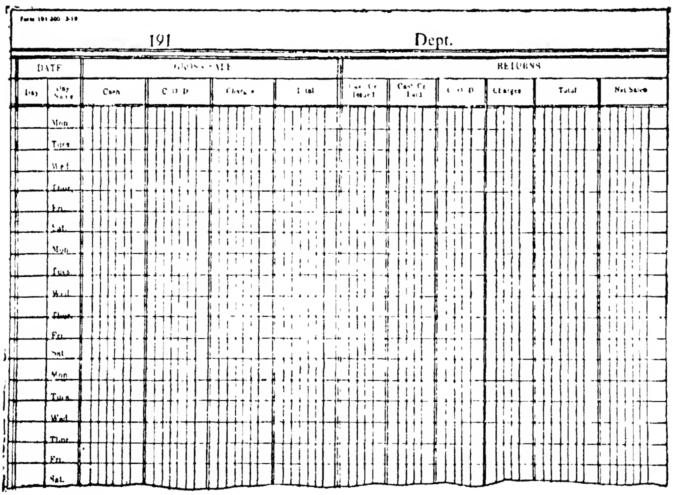

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Inventory at cost	3,600.00
Profit	1,400.00

5,000.00 28% profit mark up
retail inventory | 1,400.00 Profit
1,000.00

400.00
400.00

xxxxx

		Cost and profit equals	
Sales 5,000			100%
Cost	72%	Profit	28%
Cost	3,600.00	Cost	72%

If a profit of 28 per cent is required on the sales and the cost of an invoice is $3,600, the invoice will represent 72 per cent of the selling price. To obtain the correct selling price, divide the 72 per cent into the cost of the invoice and the quotient is the retail value or selling price.

		Total cost of selling	100
	5000	Profit desired	28
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xxx

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The period column indicates the season. The month column is for daily entries. The interpretation of profits is the amount of money added to the cost for all daily purchases, and is entered daily, the line below being the accumulated entries for the month. This is obtained by adding the daily total to the previous obtained total.

The period will cover from the beginning of the fiscal year; the accumulated profits in dollars and cents are the accumulated amounts added to the purchase price at cost to obtain the retail.

Fifth column — "Profits on Purchases less Mark downs."

The fifth column is similar to that of the fourth in its construction, with the exception that mark downs or mark ups have been considered.

Sixth column — "Purchases Month's percentage."

The percentage of mark up on the daily purchases will

be represented in this column. The accumulative percentage on purchases, giving no consideration to mark downs or additional mark ups, will be identified on the line below which signifies accumulated figures throughout the sheet.

Seventh column — " Mark downs."

Mark downs entered in the period column represent the mark downs taken for the season in accumulated form. The month column, daily mark downs for the month, is on the line below " accumulated for the month." Mark ups are entered in red figures and deducted from previous accumulated total to obtain the new accumulated total.

Eighth column — " Inventory stock Percentage."

It is necessary to know daily the percentage of mark ups that all stocks in a department represent. This column provides for the percentage information, which is obtained by the following process:

The accumulative inventory and purchases divided into the accumulative profits, giving as a quotient the percentage of retail profit on stock carried by a department.

Ninth column — " Sales."

It is important that the net sales be entered daily for the period and daily in the month column, the line below representing the accumulative sales for the period and, in the month column, the net accumulative profit for the month.

Tenth column.

This column is provided for the inventory shown at the close of the day.

Eleventh column.

The accumulative mark up, if no mark down or mark up were ever taken, should be represented in this column.

Form 23-10-18

Departmental Inventory Record

Date. . . . .

		Quantity	Inventory & Beginning of Day		Remarks	Quantity	Merchandise Received		Accumulative		Mark down	Quantity	% P	Quantity	Net Sales		Quantity	New Inventory	
			Cost	Retail			Cost	Retail	C	R								Cost	Retail
Suit	A																		
"	AA																		
Coat	B																		
"	BB																		
Dress	C																		
"	CC																		
Skirt	D																		
Waist	E																		
Millinery	F																		
Fur	H																		
Children's Coats	T																		
Children's Dresses	S																		
Infants	X																		
Sweaters	K																		
Camisole	R																		
Petticoat	W																		
Gloves	G																		
Underwear	U																		
Hosiery	Y																		
Bathing Suits	I																		

Form 23.— Departmental Inventory Record

Weather
Temperature

Sale Held
19

Merchandise Report at Retail

Dept.	Daily								Purchases				Mark Downs		Sales		Orders			Dept.
	Inventory Beginning	%	Purchases	%	Mark Downs	Sales	Inventory Ending	%	This Month	%	To Date	%	This Mo.	To Date	This Mo.	To Date	Placed To-Day	Total outstanding		
A																				A
B																				B
C																				C
D																				D
E																				E
F																				F
G																				G
H																				H
I																				I
J																				J
K																				K
L																				L
M																				M
N																				N
O																				O
P																				P
Q																				Q
R																				R
S																				S
T																				T
U																				U
V																				V
W																				W
X																				X
Y																				Y
Z																				Z
AA																				AA
Total																				

FORM 24.— MERCHANDISE REPORT AT RETAIL

Month of ________ 19

Merchandise Record

Department ________

Day		Inventory & Purchases Accumulated		Purchases Received this month		Bal. Invty & Purchases	Profit on Purchases		Profit on Purchases Less M.Ds		Purch.	Mark Downs		Invty	Sales		Inventory Ending	% original Mark up	
		Cost	Retail	Cost	Retail	Less Mark Downs	For the Month	For the Period	For the Month	For the Period	Mo. %	For the Month	For the Period	Stock %	For the Month	For the Period	Retail	No. M.Ds or Mups. considered	
Daily	1																		
Accum.	1																		
Daily	2																		
Accum.	2																		
Daily	3																		
Accum.	3																		
Daily	4																		
Accum.	4																		
Daily	5																		
Accum.	5																		
Daily	6																		
Accum.	6																		
Daily	7																		
Accum.	7																		
Daily	8																		
Accum.	8																		
Daily	9																		
A[illegible]	[illegible]																		

FORM 25.— MERCHANDISE RECORD

To Obtain Inventory and Percentage

Daily result:

$1 - 7 - 9 = 10$
$5 \div \text{by } 1 = 8$
$4 \div \text{by } 2 = 6$
$1 - 7 - 9 = 10$

Accumulate.— Same procedure as above, using accumulated figures.

In closing books for the month or year to obtain cost of inventory, column 11 or percentage of mark up, if no mark downs or additional mark ups were taken, is to be used. This will give a lower cost of inventory and provide for depreciation of value for stock disposal.

Form 24 is a summary of the working sheet as shown on Form 25.

Advertising Records.— One of the most extensive and largest items of a department store's burden is the advertising of the store and its wares. Cognizance must be taken of the fact that good accounting procedure can be argued as to whether or not the entire expenditure for advertising can be termed properly "An expense for operation." Perhaps a store that has been organized for a good many years wishes to incorporate its affairs or place the organization on the open market for sale. There is no question but what a good will account would be established, and a value placed on the name of the organization for its value in the community. While good will appears on the assets of a company in a class by itself, its tangibility, like all other good will accounts, cannot be considered as an asset for the purpose of obtaining credit unless its earning powers are of a substantial nature. Yet, while the organization is in activity, a good will which represents the good name and earning power of the department store is of intrinsic value in the community where it carries on trade. The basis of the

good will would then be established. It would be established from the extensive advertising which the store conducts, the policy pursued and substantiated by supporting such advertising with good value to the trade of the merchandise it carried in stock. However, the expenditure for daily advertising in a newspaper or periodical, or in direct advertising, including the cost of maintaining the advertising office, is properly charged to advertising. Such advertising should be distributed properly, and charged to the various departments who participate in the daily advertising.

Where a store has quite a number of departments and all the departments do not advertise, the question arises as to what portion of the space occupied by the name and address and editorials contained in the daily newspaper and other advertising mediums should be distributed to such a department. A department that has not advertised should at least bear the burden of cost for the space used to advertise the name and address of the company, along with the editorials. For it is but reasonable to argue that the various departments which did advertise were the means of bringing a certain number of people into the store. Such people passing through the departments which have not advertised, may be prompted to make purchases from the merchandise on display. Some organizations will only charge advertising to such departments as advertise in the daily paper. Those who do not advertise are not charged for anything. This is the policy of many a store, but it fails in making logically a proper distribution for the advertising cost.

Advertising is charged for at either a stipulated amount per line or per inch. In the larger cities it is charged at the line rate. The proper method of setting up the cost and distribution by departments should be followed daily. The procedure is to ascertain the total number of lines to a col-

umn and multiply by the number of columns or parts of a column in which the ad is set up. There are nine lines to an inch, and the number of inches in each column multiplied by the columns or fraction thereof used will give the total amount of lines used for the daily advertising. The columnar record is then set up, of which usually the date column to the left of the page will be used for the dates covering the entire month. The various departments will be designated at the head of the column, and the amounts of space used and the cost in dollars and cents are set up alongside of each other, a daily total column cost for the advertising.

In addition to this, other advertising matter which may come from indirect advertising is set up as an additional cost in the same record, thus giving, at the end of the month, the total amount of advertising utilized by the various departments and the amount of space used, so that a statistical record may be set up and a comparison made from year to year.

Discount Records.—In treating this subject, this term is applied to cash discount received from the payments of obligations at maturity, other than negotiable instruments. The discount question is one that runs into quite large proportions.

There are many organizations throughout the country in the retail business that are satisfied to conduct their affairs so that their wares carry a sufficient mark up to cover their entire overhead, depending upon the discount earned to produce their profits. The importance is readily established in the foregoing statement of showing the necessity of carrying a complete record of discounts earned. Two methods are applicable. One is, after entering the merchandise received in the invoice register, to set up the discount immediately alongside of the liability incurred. The other is to set up the discount in a discount record at the

time that the discount is earned, when making the remittance. A form is not given for this record for the reason that a regular columnar journal is sufficient for the purpose. The record that is set up of discounts earned is not a substantial figure to appear in a general ledger. The actual discounts earned at the time of making the remittance for an obligation that appears in the cash book are the only figures relating to discount that should appear in the general ledger and, from there, on the Profit and Loss statement.

Where the discount is entered in a purchase journal upon receipt of invoice, several journal entries are necessary for monthly closing.

PURCHASE JOURNAL RECORD

Date	Invoice No.	Register No.	Account Name	Dept. 101		Selling
				Discount	Cost	

From Purchase record

Dr. Discounts from merchandise purchase-

Cr. Unearned discounts -

From cash book (Posting direct) or through journal vouchers

Dr. Unearned discount.

Required Discounts.—Perhaps there is no other line of commercial affairs that would set up an account known as Required Discounts. The store may require a uniform discount to be earned by every department, whether the department itself receives credit for such earned discount, treated as an additional income to the department, or the discount earned is simply passed to the credit of the administrative branch of the establishment. A specific discount must be earned by the departments. Exemplifying this, a department is required to earn a discount of 7 per cent. The particular department may be the glove department. The prevailing discount allowed in the glove trade is 2 per cent. The buyer of merchandise cannot influence the manufacturer to accede to his terms. He will either add the difference of 5 per cent to the cost of the merchandise or, should the merchandise be covered by the discount of 2 per cent when the merchandise is received at the store, an additional 5 per cent is charged to the merchandise and credited to the required discount. The difference of 5 per cent is set under a separate accounting record, known as Required Discount.

Storage Record.— All stores of any size carry reserve stock. This seldom applies to wearing apparel such as ladies' outer clothing or men's outer clothing, though at times furs and overcoats may be carried on from one season to another. Reserve stocks are those of underwear, hosiery, house furnishings and the heavier wares carried on in trade by the department store, with the exception of style stock.

A warehouse or storage may be kept on the premises. Or if the volume of business of an organization is such that all space is required for selling purposes, outside warehouses or storage buildings will be used for such reserve stocks. To merchandise a store properly, and in order that an accurate accounting record be kept, the perpetual inven-

STORAGE RECORD

Record of Description RECEIVED									DELIVERED to Departments						
LOT NO.	DATE	SEASON	DESCRIPTION	COLOR	COST	RETAIL	QUTY.	RETAIL & VALUE	QUANTITY OUT	COLOR	STYLE	SEASON	DATE	REMARKS	DEPT.

FORM 26.— STORAGE RECORD

tory records, as described in Form 24, will be set up, to be known as reserve daily merchandise control. These will be supported by a storage record, in which the detail of the various stocks on hand will be recorded. Any stocks removed from the storage will be credited to the total on hand stock to show a detailed statement of the condition of all stocks for the department.

To apply best a storage record, any reserve system will be sufficient, but there are exceptions to this. The classification of the diverse merchandise would have to be set up so that, at a glance, a record will give the necessary information to the buyer (departmental manager) of the reserve stocks in the storage house, so that merchandise may be replenished with the storage merchandise (see Form 26).

In addition to the storage record, each department carries an individual record of stored stocks, applying for ready reference the lot number or storage number of the storage record and of value of such stock.

Office Petty Cash.— Office cash may be better known as petty cash, and is generally used for the payments of petty expenditures. Expenses of this nature must be recorded very carefully. Any ruled form of cash book, itemizing the various expenditures, is sufficient. However, it must be remembered that no merchandise should be paid for with office cash, neither should salaries or personal drawings or payments be withdrawn from the office cash. Each payment must be requisitioned properly by the manager of a department, properly countersigned by one authorized to do so. All cash received must be indorsed by the parties receiving such moneys on the reverse side of the petty cash vouchers or requisition.

CHAPTER III

SALES CHECKS AND RETURN CHECKS

Sales Checks.— Sales checks of a department store or any retail establishment represent a bill of sale for a purchase made by a customer. These sales may be in various forms. They may represent a cash sale, charge sale, C. O. D. sale, an approval, a will call, whatever arrangement the customer may have with the store with whom he trades, or the condition upon which the sale is made.

These sales checks are set up to coördinate with the business, generally, to fit in with the volume of business conducted by the house. Stores, whose volume of business runs into great proportions, have separate checks to represent cash sales, C. O. D. sales, or charge sales. These checks come in book forms of 50 each, with a serial number controlling the checks from 1 to 50. A binder or holder is readily made to hold the 3 sets of checks. Then again, there are other organizations that have one set of checks on which provision is made to represent either the cash sale, the charge sale, or the C. O. D. sale (see Forms 27 and 28).

The setting up of the correctness of the sales record is dependent upon the proper auditing of these sales checks. A thorough knowledge of its entire procedure is necessary to obtain a perfect audit.

Rules usually given to the salespeople and rigidly enforced are the following:

> Sales checks must be written plainly and distinctly.
> Omit flourishes.
> Never write a number over another.
> Never write a name over another.
> Never write a letter over another.

CASHIER'S STAMP				
C. O. D. No.	Sold by	Dep't	Out of Town No.	C. O. D.

NAME

ADDRESS

CITY | STATE

SHIPPING INSTRUCTIONS

Date	Dep't Letter	Sold by	Am't of Sale	Cash from Customer

CHARGE TO

ADDRESS

PURCHASED BY

ADDRESS | Coin Order No.

STYLE NO	GARMENT		

MANUFACTURED BY AMERICAN SALES BOOK CO., LTD., ELMIRA, N. Y. PAT. JUNE 30, 1903.

CUSTOMER'S VOUCHER

Date	Sold by	Dep't

Am't of Sale	Cash from Customer	Am't Paid	C. O. D.

FORM 27.— SALES CHECKS

If check is incorrect, have entire check made void and signed by floor superintendent, then proceed to make a new sales check.

In charge accounts, or C. O. D. sales, begin all names with the printed capital letter of the alphabet. Write initial in capitals.

If you are a purchasing agent, be sure that you get the name of the purchaser as well as the name of the purchasing agent.

Always repeat the address.

Always obtain the location such as east, west, north, south, for section of the city.

When in doubt as to correct spelling of the name or address, ask the customer to spell it for you.

In receiving cash from customer, always repeat the amount received before entering on your sales check.

Count your change to the customer after receiving it from cashier.

At all times be accurate.

Never put a rubber stamp on either writing or numerals, and especially the address.

Use a new carbon after the twenty-fifth check has been used.

If a sales check is missing from the sales book, immediately notify floor superintendent, who will notify auditing department.

Cash Sales.— Where the sales check in use is that of the combined form of cash, C. O. D. or charge, the word " cash " is represented by filling in the space denoting the various details in which the cash sale is connected. Cash sales should at all times be made up on white paper, though this varies so much that there is really no adequate reason why the cash sale should have any other color but white. Sometimes, colors are used to further distinguish one department from another or to locate one floor from

another. But for the reason that the cash is of such vital importance in the cash auditing, it is best to have all writings on the white paper.

The author wishes to say emphatically that all sales checks should be in triplicate. That is, a duplicate check is given to the customer for identification and claims, the original of which is retained by the house, and a tissue (which is a triplicate) remains in the book. Thus, there is an immediate foundation established for a tracer. When a cash sale is affected, the merchandise, cash and check are delivered to the cashier's desk. Where a pneumatic tube system is used, it is sent to the cashier's station. Where a cash register is used, it is registered in such register. Where no parcel wrapper is employed, the clerk generally makes her own parcel. However, where a wrapper is stationed, an inspectress will compare the amount of sale with the price marked on the merchandise. If the sales check and merchandise with its price ticket correspond, the parcel is made up and returned to the sales clerk for the customer.

Well regulated stores employ the identification method, which is known as a "Customer's identification." This is a part of the duplicate check giving the number of the clerk, sales check number, date, amount of sale, and cash received. After the sale has been effected and the money received, the clerk removes the identification voucher from the check proper, which is attached by the perforation method. The voucher or receipt is handed to the customer, retaining it until her package is delivered, using her identification slip to obtain the package properly belonging to the customer. The parcel wrapper is instructed to write the sales clerk's and check number on every package. This method has proved its worth during the rush hours in preventing mistakes in delivering parcels to customers.

Permitting sales clerks to pack their own goods may save some time, and permitting each clerk to be her own cashier

may also keep the customer from becoming impatient while waiting for change and parcel. But for obvious reasons known to every department store man, the author does not recommend this method. It may be utilized to advantage in such departments as notions, bakery and meats, but in no other. Though stores permit gloves, hosiery, perfumery and ribbon departments to make their own cash and do their own parcel wrapping, an inspection system is highly recommended.

C. O. D. Sales Checks.— C. O. D. sales for all stores regardless of the volume of business are at best not only an encumbrance, but a loss and a dissatisfaction to the business and institution as well as to the customer. The most expensive sale of an organization is where the customer requests her purchase to be sent to her home C. O. D. (terminology being, Cash on Delivery).

The average percentage of returns of all C. O. D. sales is about 28 per cent. In many stores, the percentage of returns will even run beyond 50 per cent. This percentage has increased to such great proportions, that the department stores throughout the country have practically banded themselves together into a policy that C. O. D. sales will only be accepted where a customer is known to the house, or to the coworkers of the department, or where a deposit is placed. Whether a customer is known or not, no C. O. D. sales will be sent out of town unless a deposit is made to conform in proper proportions to the amount of the sale.

Where a C. O. D. sale is affected, the procedure should be the proper filling in of the specifications printed on the sales check. Where the proportions of the C. O. D. business is large, it is best to have a separate check plainly printed, with the word C. O. D. as printed in Form 28. In affecting a C. O. D. sale, the full name should be obtained. There must be no deviation in this instance. When the customer

gives the address in care of another party, both names in full should be secured. The duplicate sales checks are sent to the cashier's desk and the cashier in turn will have them delivered to the main office. The original sales check and the merchandise are sent to the C. O. D. parcel desk station. By the term C. O. D. parcel desk, the author refers to a station set up to receive all packages or merchandise which are covered by C. O. D. sale. At this station all goods are wrapped and the check is either pasted to the package or pasted on a card, which is tied to the parcel, and from that station sent to the delivery department for distribution. The duplicate check which is sent to the office every hour is immediately recorded on a C. O. D. record (see C. O. D. audit). The C. O. D. sales check just mentioned is that which is applicable to the department store exclusively.

There are many organizations throughout the country. In fact, almost every line of commodity has reached the stage of specialization, so much so that establishments have sprung up in the last decade which have specialized in the selling of one particular classification of merchandise. Such an organization is known as a specialty house. It may be men's clothing, women's clothing, millinery, wearing apparel of any description — whether infants', juveniles' or adults — hardware, furniture, in fact, any conceivable commodity carried on in trade, and used by society. Where a wearing apparel organization is conducted, a workroom where alterations are made is conducted, completing the specialization of the establishment.

Where a C. O. D. sale is made in the specialty house, the sales checks, which ordinarily, in the department store, are pasted on a card or on a package, will be pasted to the reverse side of Form 48, which is made up of a manilla card. This form is known as a C. O. D. shipping tag, and sales check, and is also used for cash sale. The date on this must

C. O. D.

DEP'T

Date

Name

Address

Folio

533

WRITE CLERK'S NUMBER IN FULL

Clerk

Am't, $

[illegible] ARE REQUIRED TO FURNISH CHANGE
DELIVER NO GOODS TO [illegible] WITHOUT AN ORDER FROM [illegible] BROS.

ORIGINAL

C. O. D.

302-304-306 W. LAFAYETTE ST.
THROUGH TO
311-313-315-317 W. LEXINGTON ST.

DEPT.

Date 191

Folio M

533

WRITE CLERK'S NUMBER IN FULL

Clerk

QUANTITY	DESCRIPTION	PRICE	AMOUNT	
		Total		

Form 28.— C. O. D. SALES CHECK

be written plainly, with the description in the form of a bill, so that the tag will remain attached to the garment and remain attached during the process of alteration, up to the time that the merchandise is ready to be packed in the container to be forwarded to the customer who has made the purchase. The stub of this tag is a record to be used in the alteration books and card file of the alteration or workroom. In these records proper space is set up to signify whether such alteration is a C. O. D. sale, a cash sale or a charge sale, having in mind that a verification of the open C. O. D. can be traced either in the workroom or delivery department.

Charge Sales Checks.— A considerable amount of difficulty arises at times in properly controlling the sales for which the customer carries a charge account. At the inception of the charge sale, all information, such as is printed, with an allotted space on the sales check, must be filled in. The clerk affecting the sale will communicate with the credit department in order to ascertain whether the credit of the customer making the charge sale is in good standing. This information is obtained from the credit department, either by the sales person or by clerks who are known as O. K. clerks or credit clerks.

There are various devices used, in which these checks are O. K.'d or approved for delivery by the credit department. Various mechanical devices are made that authorize credits, going extensively into the mechanical or telegraphic house systems. When the credit department sanctions a sale, the sales check is completed. The original check is given to the cashier. The duplicate check is given to the customer with the merchandise, and the cashier's voucher, which is an addition on the foot of the check as shown in Form 27, is sent to the office for a triplicate check on the charge sale. After completing the audit of the charge sales check or vouchers in the auditing department, these checks will be

posted through the accounts receivable ledgers, where they will find their way to the proper account in the ledger, and a statement will be rendered monthly.

Charge sales may be collected hourly and an immediate audit set up, which is reconciled the next day. These hourly audits are for the express purpose of enabling the accounts receivable ledger clerks to post sales charges the same day the purchases are made.

Will Call Checks.— The will call check is an excellent check to be adopted where a deposit is made on a purchase and the customer wishes the goods held for a future date. Most houses use the C. O. D. check for this purpose, which is very wrong, as it permits an excellent opening for mistakes and dishonesty. C. O. D. checks should never be used where a deposit on merchandise is made until called for.

A will call check is made up in triplicate form and is considerably smaller than the other checks in use. The top check with cash deposit must go to the cashier, who treats this top check as a regular cash sale. A tissue duplicate remains in the book and a triplicate of hard manilla paper is attached to the merchandise and set aside until called for. When the original check reaches the office, a will call record is established in a will call record book and for all goods not called for after a given period the customer will be notified and merchandise replaced in stock, after a limited time allowed the customer to pay for the purchase. The deposit will be forfeited and the will call balance credited by forfeit, or whatever circumstances may be connected therewith should the customer fail to comply with request to call for merchandise set aside.

The will call check is further extended for the purpose of a partial payment plan of purchase. While the store is not selling its wares on the installment plan, it is customary with houses to extend this privilege when specifically

requested by a customer. In instances of this kind, any installment method of record will be kept, but for every payment made by the customer, a cash sale check must be made. The reason for this is because the original payment of the will call sale has been considered a cash sale. Therefore, all future payments must likewise be considered as cash sales. In such establishments, where C. O. D. checks are used as "Will Calls," additional payments must be credited to open C. O. D.'s.

Club Plan Sales.—The term club plan is a camouflage for installment sales. The department store is not an installment house, and to offer pianos, players or furniture on installments would not be in keeping with the store policy, hence the term club plan. All club plan sales, as a rule, are subject to a chattel mortgage. The accounting is similar to the will call system on a broader plan, with a ledger account controlled by the credit department.

Transfer Checks.—This form of check is a convenient sales and burden saver. It is a means of giving the customer quick service and at the same time of encouraging trade. A transfer sales check may either be a charge sale, a paid sale or a C. O. D. sale. The object is to enable the customer to buy in any number of departments without delay, and to have all her purchases delivered, where convenient to do so, in one package or in one shipment. If, after the purchases have been made, the customer wishes all her purchases delivered to another party, such address must be given to the clerk in charge of the transfer desk.

The Transfer Desk.—The transfer desk is a central station where all parcels bought on a transfer check are delivered. At this transfer desk a cashier is generally stationed. Here the entire transfer sales check is paid, and all packages are checked and disposed of in accordance with the customer's desires.

There are several forms of transfer checks. One may be

on a manilla card with pasters attached, generally running from ten to fifteen pasters to each transfer check.

The procedure with the paster transfer card should be as follows:

The customer arriving at the store will proceed to the transfer desk where she will obtain a card for the purpose. Each card is registered and the date recorded. The time of the day when the card was given to the customer must appear on the check. Specific information is requested as to whether the merchandise will be charged, paid or sent C. O. D., which information must be indicated on the transfer or shipping directions, unless otherwise changed at the time the customer has completed all her purchases.

It is customary in all stores where parcels are sent to the transfer desk that such merchandise should be held for three days only. Unless this merchandise is called for at the end of that period, the store will consider it its privilege to return the merchandise to stock.

The customer, after obtaining the card, will proceed from one department to another to make her purchases. She presents her card to the sales person who has effected the sale, which clerk will enter in his sales the number, which is given to all sales people employed in department stores for convenience in accounting and statistical records. The sales person will also record the department employed in, a description in one or two words of the articles sold, and the amount in dollars and cents. A paster or sticker such as shown in Form 29 will be detached and pasted to the parcel, which will be sent immediately to the transfer desk to await the call of the customer making the purchase. The sales person must not for any reason delay the sending of the transfer purchase to the transfer desk immediately after the customer departs.

Another form of transfer check is shown in Forms 30 to 34. In this instance, the pasters are not used, but a regular

Transfer No. 193 V Date ________ 19

Chg. to ____

Address ____

Sent to ____

Address ____

Purchased by	
Address	

If purchases are to be taken with, use Pink Transfer

TO SALESPERSON

When issuing a transfer card ask customer if goods are to be charged, if so, write the name of person to whom charged and the purchaser's name on transfer card and sales checks, also place on transfer card the date of sale.

Customer's Instructions

This sheet contains Shipping Directions, and must not be taken from the store. When through purchasing, present this card at transfer desk in basement, if goods are to be taken with. If goods are to be sent, this card can be left at Exchange Desks and Bureau of Information on first floor for settlement

All purchases on this Card will be returned to stock unless Card is presented at transfer desk within 3 days

Charge			
Paid			
C. O. D.			

Settled by ____________________ *Time Settled* ____________________

FORM 29.— TRANSFER CHECK

		Amount	C. O. D.
Date	How Sent		

Name

Place

County

State

Care of

U 21

Settlement Date

By Time

Charge to

Place

Purchased by

To be entitled to credit, or refund of cash, all merchandise will be considered returnable only within five days after purchase.

FOR SEPARATE SHIPMENT

A. Send to

Place

B. Send to

Place

C. Send to

Place

D. Send to

Place

FORM 30.— TRANSFER CHECK

	REMARKS	SEC.	SALES	Check No.	ARTICLES	AMOUNTS	
1							
2							
3							
4							
5							
6							
7							
8							
9							
10					U 21		
11							
12							

Received Payment,

Date________________ Per________________ Total

FORM 31.—TRANSFER CHECK
(Reverse Side of Form 30)

Date How Sent

Name

Place

County U 21

State

Care of

DUPLICATE

Settlement Date

By Time

Charge to

Place

Purchased by

FOR SEPARATE SHIPMENT

A. Send

Place

B. Send to

Place

C. Send to

Place

D. Send to

Place

FORM 32.—TRANSFER CHECK

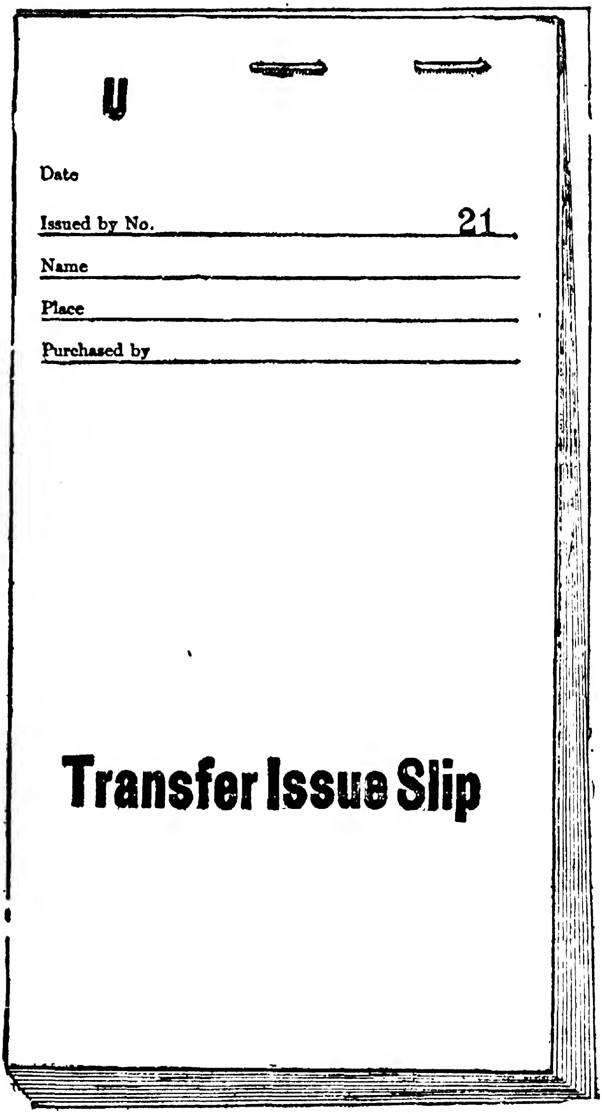
DUPLICATE

	REMARKS	SEC.	SALES	Check No.	ARTICLES	AMOUNTS	
1							
2							
3							
4							
5							
6							
7							
8							
9							
10					U 21		
11							
12							

Received Payment,

Date________________ Per________________ Total

FORM 33.—TRANSFER CHECK
(Reverse Side of Form 32)


U

Date

Issued by No. 21

Name

Place

Purchased by

Transfer Issue Slip

Form 34.— TRANSFER CHECK

sales check is made out, which sales check is attached to the merchandise and sent to the transfer station, as described on the transfer card. It is a matter of preference which method is preferable.

A store's problem is the customer's service. The first thing that is in the mind of a department store manager, or owner or trained executive, is CUSTOMER FIRST. Whether the customer is right or wrong in the statement she makes, or whether her demands of the firm are entirely unreasonable, the well trained department store executive immediately thinks of the customer first. Invariably she must be given the benefit of the doubt. Even though, using the vernacular, she is "dead wrong," she is still right. Having the circumstances in mind, the only feature of a transfer check is the reconciling of her parcels and the sales check after the customer had completed her purchases. Where a store goes very extensively into the use of transfer checks, at certain hours of the day, the transfer desk will be congested. Many clerks may be employed at this station for the reason that while the customer is kept waiting until her turn for the reconciliation of the transfer check, her patience becoming exhausted, the result is that the good effect for which the transfer check is intended is lost, and a bitter complaint is lodged with the manager with the abundance of reasons behind it, such as only a woman shopper is capable of dispensing.

Accommodation Check.— The address label of an ordinary salescheck is quite sufficient to answer the purpose for this form of check. It is used where a customer, having made a purchase, leaves the department and later, womanlike, decides she prefers to have it sent. The accommodation check is used, since a well systematized organization will not permit a parcel of any description to be delivered without a sales check. It may also be used for customers other than those who may enter a store and request deliv-

ery of a parcel. In such instances, a nominal charge of ten cents or more is made. All accommodation checks must be approved by the floor superintendent.

Approval Sales Checks.—When merchandise is purchased on approval by a customer the same procedure as that of a charge sale must be adhered to.

Inter-Department Sales Checks.—Inter-department transfer is a form of sales check that is used in various

INTER DEPARTMENTAL TRANSFER

FROM DEP'T ____________ TO DEP'T ____________

DUE NO.	MFG. NO.	LINE NO.	COST	ORIGINAL SELLING	NEW SELLING	QUANTITY	TOTAL	REASONS FOR TRANSFER

FORM 35.—INTER-DEPARTMENT SALES CHECKS

stores under different methods. Its intention is to cover merchandise transferred from one department to another. That is, department No. 1 will sell to department No. 2 a certain quantity of merchandise. The cost should not enter into such a transfer to the department doing the transferring, for the reason that the department that is doing the transferring is given credit as if it were a sale. The department receiving the merchandise is charged as if it were making the purchase. The difference between the mark up of the department doing the transferring and the

new selling price as given to the merchandise by the department receiving it, would either be a mark down or a mark up. This difference must be transferred properly to the daily departmental inventory record in order that a correct control is set up. The record is kept of conditions as they actually exist (see Form 35). If a mark down is considered in making such transfer, the department making the transfer must be charged with the reduction in selling price.

Cash Refunds.— Cash refunds refer to the return of cash given to a customer for the return of merchandise from a purchase made. It is customary for the customer making a request for the refund of the amount of money paid for the merchandise she is offering for return, to identify properly the merchandise by the price ticket on the garment. Or, most important of all, it is necessary for her to present the sales check along with merchandise in order to obtain the credit.

The percentage of returns on cash sales is generally the smallest of the three classifications of sales; that is, of cash refunds or returns for cash sales, charge sales, and C. O. D. sales. These cash refunds are issued at a central desk on each floor of the store, known as an Exchange Desk. The merchandise must immediately be sent to the department where it is acknowledged as having been received in stock. Generally a person in authority authorizes making the refund to the customer. The exchange clerk should put her name and number on every refund check and the full description of the article returned. The original slip will go to the customer, who will either use it for the payment of merchandise or obtain the cash to cover the cash refund, or credit voucher. The duplicate of this refund will be sent every hour to the general office, where it is passed to the auditing department and a verification made with the original in order to properly check the cash refunds for the

Form 123A 2500 sets 4-19

CASH REFUND SLIP № 508

Dept.________________ Date________________

Customer's Name________________________________

Address________________________________

____

Articles

Sold by________________ Reason for Refund________________

Amount of Refund________________Dollars

Rec'd in Stock by (signature)________________Authorized by________________

FORM 36.—CASH REFUND SLIP

Issued by Clerk No________

Form 12 25 D 4-'8

CASH REFUND

A 5503

Date Sold________

Dep't________

Sold by________ Date________

Name________________________________

Address________________________________

ARTICLES RETURNED	STYLE	AMOUNT
100	Total,	

Rec'd by________

Authorized by________

FORM 37.—CASH REFUND

day. The tissue remains in the book for reference (Forms 36 and 37).

Cash Refund Slips.—Another form for a cash refund is shown in Form 36. The customer wishing to make an exchange will find the exchange desk along side of the cashier's desk. Having made known the customer's desire, the clerk behind the exchange desk will call the buyer or her assistant, or the floor superintendent, who will promptly interview the customer.

A cash refund can only be issued upon the authorization of the floor superintendent, the buyer or the first assistant buyer. Its issuance must be signified by signature in writing upon the space of the cash refund slip noted "Authorized by." The department letter and date must be written plainly, as must the customer's full name and address, and a detailed description giving the style, number, description of the merchandise. The selling price must be clearly specified, along with the reasons why the refund has been requested. The number of the sales coworker having effected the sale must appear on this refund slip. The amount of the refund must also be written out in letters as well as in numerals, and in ink.

No cash refund will be accepted unless the signature appears on the slip, showing that the merchandise was received in stock by either the head of the stock or the assistant in charge of the proper keeping of the stock in the department to which the merchandise is to be returned. Cash refund slips will be held by the cashier.

This check is made in duplicate form, the yellow check is to be removed from the book, and the pink check is to remain in the book. These books are to alternate, to be used every other day.

The original customer's sales check is to be attached to pink cash refund slip. The customer must sign her name and address on reverse side of yellow cash refund slip.

The office will at various intervals report the diverse reason for merchandise returns, as given by customers, appearing on pink credit slips to the merchandising office.

Merchandise Exchange.— Cash refunds are not always granted upon request of a customer. A very liberal policy and, in the opinion of the author, the one most successful in holding patrons and ultimately increasing the volume of sales, is to refund immediately, when a refund is demanded. However, where the policy of an organization is not of the liberal kind and certain merchandise can only be exchanged for other articles, the merchandise exchange check is issued. The procedure is the same as cash refunds, with the exception that the exchange check is used to apply to the payment of a new sale (Form 38).

Charge Credits.— Charge credits are such credits as are issued for the return of merchandise to customers with whom a charge account is carried on. They are further distinguished from a cash refund by the difference in the color. Charge credits generally are of pink paper and come in triplicate form. The pink check goes to the customer; the duplicate in blue, is sent to the general office at the time of issue. The tissue remains in the book for reference. Unlike the cash refund, very seldom is merchandise accompanied by the sales check. Very often the price ticket will be missing from merchandise returned by charge customers.

That privileges of a charge account are very often abused by customers is not a mere thought, but an actual occurrence in almost every community.

The procedure of having the merchandise delivered to the department it belongs to must be acknowledged by the party receiving the merchandise — generally a person known as head of stock, and authorized by an authoritative person (Form 39).

Form 143-50 Bks—5-19

MERCHANDISE EXCHANGE № 901

Dept.______________________ Date______________________

Customer's Name______________________

Address______________________

____

rticles

Reason for Return______________________

Sold by______________________

Amount of Return______________________Dollars

Rec'd in Stock
by (signature)______________________ Authorized______________________

FORM 38.—MERCHANDISE EXCHANGE

Charge Credits Procedure.—A customer wishing to make an exchange will find the exchange desk conveniently located on the floor. Having made known her desire, the clerk at the exchange desk will call the attention of the buyer, or her assistant, or the floor superintendent, who will promptly interview the customer.

A charge credit can only be issued upon the authorization of the floor superintendent, the buyer or buyer's first assistant. Its issuance must be indicated by the signature written upon the space allotted on the credit slip. The authorizer having ascertained the authenticity of a charge credit to be put into effect, should feel incumbent to obtain, whenever possible, the customer's original sales check, and copy identically the information contained on the sales-check upon the charge credit slip. Where saleschecks are

not available, the following information must be ascertained and written upon credit slips: The date when the request for credit is made, to whom the merchandise was originally charged and the address, by whom the merchandise was purchased and address, the coin number should appear in the space allotted for coin or order number, or if a purchasing agent's charge, the order number of the purchasing agent should be written plainly in the space headed by the words "Coin order No." The date when the merchandise was originally sold is to be placed in the column headed by the words "Date purchased." The saleslady's number must appear as well as the department letter. The reason for credit must be written plainly on each slip. No credits should be acceptable unless the reason for return is mentioned in the space allotted for that purpose.

In order that a charge credit (credit slip) be valid, not alone must the signature appear of that person who is privileged to authorize the issuance of the credit, but the signature must appear of the head of stock, or the assistant in charge of the stock, such signature being written in the space headed by the words "Received in stock."

The body of the check must contain the style number of the merchandise offered for credit, the description of the merchandise and the amount of the sale. By the term description, one or two words identifying the classification is sufficient, as Ladies' waist, Ladies' shoes, etc.

The white check is to be sent to the ledger clerks in the accounts receivable department of the general office. From this credit slip, the ledger clerks, after setting up their ledger controls and giving the proper division for their daily audit, will post to the ledger account to whom the credit has been issued. The white credit slip marked "Auditor's voucher" will be sent to the chief auditor of the auditing department by the ledger clerks in order that they may set up a proper audit of charge credits against

the day's business, official control to the general ledger, comparisons to be made with accounts receivable department.

The tissue remains in the book and is audited by the auditors with the white credit slip stamped " Auditor's voucher." This is done in order to account for every charge credit issued, and to control the charge credits so that a perfect check will be kept to the extent that the ledger clerks of the accounts receivable department will receive every charge credit slip that is issued. They will be enabled to have every charge credit slip that is issued upon their ledgers. The tissue remains in the book, and must not at any time be removed.

The yellow or manilla copy, which is obtained by the use of a carbon paper, will be sent to the clerk in the department who is conducting merchandise records for the control of the departmental stocks. Where this is not the case, the manilla copy will be sent to the statistical department of the general office which controls the merchandise fluctuations. There awaits the proper reconciliation of the total amount of the manilla slips for such charge credits as may appear on the daily reconciliation sheet as set up by the auditing department.

The yellow credit slip marked " Auditor's voucher " giving the sales person's number, the department, and the amount of the credit issued, is given to the customer as an identification that a credit has been issued in her favor, and is entered upon the ledger accounts record.

These charge credits slips will be alternated, that is, books that are in use Monday, Wednesday and Friday will be replaced by other books which will be used Tuesday, Thursday and Saturday, giving the auditing department one day's time to check back the tissues remaining in the book for auditing purposes.

Form No. 1 50 bks 4-19

No 2154

CREDIT SLIP

DATE ____________ 19__

CHARGE TO

ADDRESS

PURCHASED BY

ADDRESS

Coin Order No.

DATE PURCHASED	SOLD BY	DEPT. NO

REASON FOR CREDIT

RECEIVED IN STOCK	AUTHORIZED

CREDIT SLIP

No 2154

AUDITOR'S VOUCHER

S P NO.

DEPT. NO.

FORM 39.— CHARGE CREDITS

CHARGE CREDIT

B 3328

Date Sold ....

Dep't ....

Date ....

Sales No. ....

Credit to ....

Ret'd by ....

Address ....

Address ....

ARTICLES RETURNED	STYLE	AMOUNT
100 Total		

Goods Rec'd by ....

Authorized by ....

FORM 40.— CHARGE CREDITS

The original customer's sales check is to be attached to the white credit slip, when obtainable.

The office will at various intervals report the diverse reasons for merchandise returns as given by charge customers appearing on credit slips (see Form 39).

Purchasing Agents.— In almost every community there are purchasing agents who have an account with a department store and receive special discounts for purchases they make. These purchasing agents have a list of customers whom they will direct to make their purchases at a store with whom the purchasing agent has a charge account. In such instances, where a return is made, the credit will have to be given to the purchasing agent and the name of the person who is making the return specified on the charge credit.

Purchasing Agents Orders.— Authorization of a charge to a purchasing agent by a person making a purchase must be upon a signed store order or requisition by the agent covering the value of the purchase. No charges should be made against an agent, unless an order authorizing the charge is presented. After the order reaches the office, it should be cancelled so that it may not find its way to a department again and be used a second time.

Charge Credits Ledger Postings.— The ledger clerks in posting charge credits must exercise special caution with charge accounts. Each ledger clerk must refer to the original charge in her ledger for verification, so that the amount indicated on the charge credit will correspond with the amount of the original charge. Perhaps it may not seem necessary to direct attention to this item, but the author has found that the greatest number of mistakes in charge ledgers occur from this source. In fact, unnecessary losses are produced through the neglect of ledger clerks in making these verifications.

C. O. D. Credits.— The same procedure that applies to charge credits is applicable to C. O. D. credits. A different color check, however, should discriminate the Form 40 with the words C. O. D. credit printed thereon.

Outstanding Cash Credits.— A record is kept of the total amount of cash refund checks that are issued immediately after the daily audit has been completed, made as a liability of the store. Its offset credit would be those cash refunds which are turned in by the various cashiers who have paid the cash or accepted the cash refund as a part payment or a payment for new purchase. The difference is termed Outstanding Cash Credits, showing a liability for credits for which the customer has not cashed the credit voucher issued. Generally this form should be followed up in the same manner as the issue of bank checks, as if it were an order on any banking institution making a reconciliation of such outstanding cash credits by checking up refunds issued, unclaimed and not cleared.

Mail Order Credits.— A department store issues a considerable amount of credits. Such credits will be used the same day or during the current month of issue by the customer. This, however, doesn't hold true with the case of the mail order house, which must keep a record of outstanding cash credits as if it were a banking problem. Credits in mail order houses are known as merchandise credit vouchers. Some mail order houses will not issue any credit vouchers at all, but will make a cash refund immediately. The object of this is to eliminate the extensive bookkeeping required to control the large number of credit vouchers that are issued. However, from a financial view point, the mail order house will lose all the direct benefits of the use of the cash, which otherwise it would have been obliged to return.

Statistics show that 89 per cent of all merchandise credit vouchers issued by mail order houses are applied to re-orders

with additional cash. It will readily be seen from this that though the prevailing percentage of merchandise credit vouchers issued from mail order houses averages 89 per cent, the actual refunds average about 11 per cent.

In the issuance of such credits each credit will be numbered in consecutive order. The record book will be kept in which the number of the voucher, date of issue, name and address of customer, and the amounts are recorded. As these credit vouchers are returned by customers for credit through the mail cage, they will in due time be sent to the general accounting department, which will immediately check up the merchandise credit vouchers record. A daily record in the form of a report will show the outstanding cash credits. This same form is an excellent outstanding cash credit record, and should be in use in every department store issuing credit refunds.

Exchanges.— The exchange checks apply to those checks where a customer exchanges merchandise which she bought at some prior date, or on the same day, for other merchandise of the same price, and from the same stock. If she buys merchandise from one department and wants to exchange it for some other merchandise in some other department for the same price, the exchange desk cannot be used. In instances of that kind a credit must be issued, and that credit used as a part payment for the merchandise which she secures in another department. For example, suppose a suit is purchased, size 36, and it is found to be entirely too large. The customer comes back to the store and says, "I want size 18, Misses," and it is the same price. The sales clerk will then take a sales check, make the check as if it were a regular sale, write the word "exchange" under it, and specify the style number for the garment.

The buyer, department manager or floor superintendent in charge of the department O. K.'s the sales check, which check is known as an Exchange check.

The fact that the exchange is simply a difference in size or a difference in color of the same class of merchandise, does not permit the sales person to merely exchange the garment for the customer without making a record of it. It is incumbent upon the sales person to make a record of every sale, because if she is permitted to simply make the exchange without the making of a sales record, fraudulent transactions in sales must ultimately follow.

The word " exchange " is often misapplied, and to an auditing department not well versed in the interpretation of the various checks, imperfect audits will result. Departments sometimes interpret the word exchange as if it were a listing of all returns, whether cash, charges, C. O. D. or will calls. They then deduct the total from the gross sales in order to obtain the net results for daily sales.

Part Payments.— These checks must not be interpreted as being an installment affair of purchasing merchandise by customers. Part payments would be applied to such checks where a will call sale is affected. That is, a purchase having been made by a customer, a payment on account will be made, the merchandise set aside, to use the familiar term of the department store — a " Lay away "— until such time as may be arranged between the customer and the sales person when the entire payment of the purchase it to be met.

A part payment purchase which is to be arranged by payments being made on the installment plan, should be sanctioned by the floor superintendent, buyer or assistant buyer. There are instances where a piano department or furniture department will sell these articles on part payment. This would be known as a club plan. However, for the better control of the sales and in order that such payments will be made, it is treated as a cash sale, unless a club plan of payment had originally been set up as a charge sale.

Part Paid C. O. D.— The only deviation from part payment plan would refer to the deposit placed on a C. O. D. sale. Transactions of this nature are known as part paid C. O. D. Where no deposit is made on a C. O. D. it is called a " Straight C. O. D."

Part Paid and Charge Credits Combined.— Perhaps the worse classification of credit is where a customer having a charge account makes a payment on a purchase and has the balance of her purchase charged to her account. All inter-

Date

Salesperson Name *No.*

Dept. *Serial No.*

No	*CASH*		*C.O.D.*		*CHARGE*		*P.M'S*
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							

FORM 41.— SALES CHECK TALLY

Form [illegible]

SALESCLERK'S NAME__________ No. first check used to-day______ No. last check used to-day______

Sales No.______ Series No:______ Dept.______ Date______

	STYLE No.	LINE No	CASH	CHARGE	C.O.D.	P. M.		STYLE No.	LINE No	CASH	CHARGE	C.O.D.	P. M.
1							26						
2							27						
3							28						
4							29						
5							30						
6							31						
7							32						
8							33						
9							34						
10							35						
11							36						
12							37						
13							38						
14							39						
15							40						
16							41						
17							42						
18							43						
19							44						
20							45						
21							46						
22							47						
23							48						
24							49						
25							50						

*No. of Transactions*______ *Total Amount*______

Form 42.— Sales Check Tally

ested parties in the general office should be on the alert with this form of credit for both errors and fraudulent entries. The original ledger posting will be

Dr. The account with full amount of sale.

Cr. The account with amount of cash paid.

When the return of merchandise is made, a credit should be issued for the amount of the sale. Or, if the customer desires the return of her cash payment, two credits will be issued — a charge credit for the amount of sale less cash paid; and a cash refund to apply to charge account for the actual cash paid on the transaction.

The Tally.— The tally card, sometimes known as an index, is a card upon which the number of the sales checks and the classification of the sale is recorded by the sales person immediately after making her sales check (see Forms 41 and 42).

These tally cards generally run from 1 to 50, with 25 checks to each side of the tally card. A new tally must be made every day. If more than 50 sales checks are used during the day, additional tallies, as many as may be required, may be made. These tallies must be dated with the sales check, sales person's name, number and the department in which the sales person is employed. Each sales book consists of 50 checks controlled by serial numbers. These serial numbers must appear on each tally. The classification of the sale, whether cash, C. O. D., or charges, must be indicated in the column provided for that purpose. At the end of the day, the total amount of the sales with each classification must be added by the sales clerk, and turned in to the manager of the department (buyer) by the sales person before leaving her department.

The column provided for P. M.'s is for such premiums earned for the sale of merchandise to which a premium is attached.

Envelope form of tally is that which is shown in Form 42, which is an envelope containing the tissues or a triplicate copy of the sales checks removed from the book. These are sent to the general office at the close of the day's business.

Sales persons must be instructed to make sure that the first check beginning the day's business must be the next consecutive check following the last sales check used the previous day. This is to conform with the auditing, which is checked up in the Auditing department daily. U. S. Tax on taxable merchandise is recorded on the tally along side of the sales check number upon which a tax was paid by the customer.

CHAPTER IV

AUDITING

The usual interpretation of Auditing conveys the understanding that an examination is made as to the correctness of any particular kind of work appertaining to all or any part of the accounting system. The department store maintains an auditing department at a considerable expense for the express purpose of the daily auditing of sales checks, regardless of their classification, to verify the correctness of the sales and to keep a perfect check of the cash receipts, and refunds of the organization.

CASH SALES CHECKS AUDIT

Assorting.— All cash sales checks are collected hourly from the various cashiers stationed throughout the entire establishment and deposited with the auditor-in-chief in the general office. Where a pneumatic tube system is used, sales checks will be collected from this center and turned over to the auditor-in-chief. A cabinet is provided in the form of pigeon holes, each compartment representing a department. A set of girls is appointed to sort all the checks which are turned over to them by the auditor-in-chief. This assortment begins directly after the auditor-in-chief receives the cash checks. The following morning these cash checks are further assorted, according to the sales checks made by the various sales persons. Still another assortment is made of the sales check by their serial numbers.

At the completion of this assortment, the auditing department will have each sales person's sales checks made the

previous day according to serial number in consecutive running numbers. The cash checks that were made by the individual departments are segregated.

Missing Checks.— All assortments of checks must coördinate with that of the C. O. D. and charges. It will, therefore, be found that after an assortment of the cash sales checks has been made, these checks which do not run in consecutive order will show checks missing.

The first step would be to find the missing check in the auditing department, either by looking in checks amongst the charge sales, or the C. O. D. sales. In the event that the missing check cannot be found in the auditing department, a search must be instituted immediately for its location.

Sometimes it may be in the " will call " department. It might be a check that has been made void. It may show some discrepancy with the cashier or it may be held in some department. In fact, a search may reveal various causes for the missing check, but there is no excuse whatever for the checks not being accounted for. It is imperative that the check be found. Of course, there is always a last resort of locating the checks, consisting of referring to the tissue or triplicate check. But the author has found that very often, when a sales check is missing, that either the tissue is indistinct or the tissue itself is missing. It therefore behooves the auditing department to locate and keep in perfect control all sales checks that are used for each day's business. A record should be kept of each clerk's first sales check used at the beginning of the day, and the number of the last sales check utilized for recording a sale, in order that the first and last checks are accounted for in setting up the daily missing list.

A special auditor is appointed and known as a " tracer," to be acquainted with every department and section of the house system. The tracer's duty is to locate every sales

TRACER

Date	Dept Letter	Sold by	Amt Sale	How Sold

Charge to

Com Order No

Series No.

Voucher
Series No

Date	Sold by	Dept

Amt Sale	Cash Customer	Amt Paid	C O D

INFORMATION

OVER

FORM 43.—TRACER CHECK

check. No excuse must be accepted for not accomplishing a tracer that is once begun.

Tracer Check.— The moment a check is found missing, a tracer check is made (as shown in Form 43). The details are obtained from the tissue or envelope tally. The tracer auditor will make her investigations, or, to use the vernacular, " Run down the missing check " and record all information obtained upon the space allotted for this purpose on the tracer check. Upon completing the investigation, her report will be turned over to the auditor-in-chief to close the search.

The Adding of Checks.— After accomplishing the assortment of all checks, the tally will be checked back to account for each sale. The cash will then be added and the total of all the cash sales for the day verified with the cash receipts turned in to the general cashier. At the same time that the checks are being compared with the tally sheets, the auditor must audit each check for additions and multiplications. Any errors detected must be reported immediately to the chief auditor, who will then follow the course of policy that the house may pursue in regard to blunders.

Blunders.— This is another term for errors made by sales people. Many stores pursue a policy of charging from five cents to twenty-five cents for all blunders made by sales help. This is rather detrimental to an organization. If a clerk is not efficient in her work, she must be taught to be so. The good will of coworkers must at no time be discouraged.

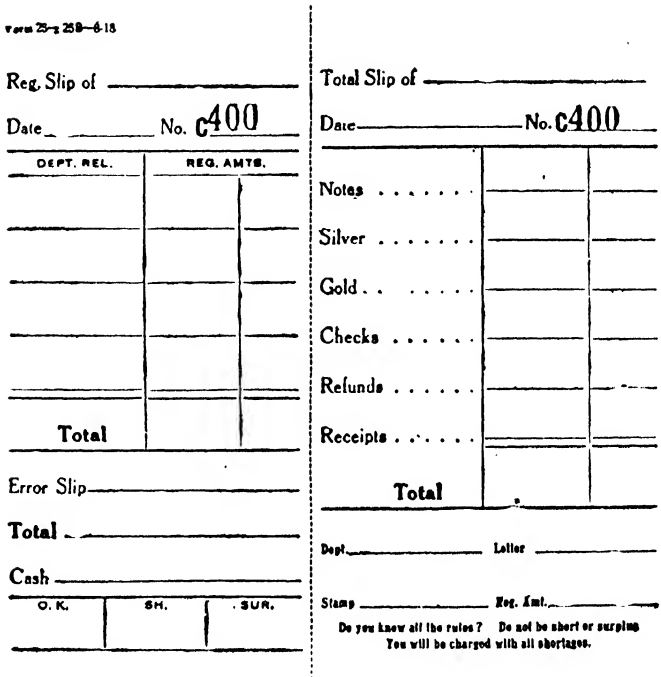
Cashiers' Vouchers.— Some auditing systems may not make an hourly collection of sales checks, but permit the cashier to turn in her checks at the close of business. These checks will be added, and whatever the cash receipts of these checks amount to must be an equivalent of the cash turned in to the chief cashier by the cashiers of the depart-

ments. However, a considerable amount of time is lost by waiting until the following day to assort the checks. Unless a large force is employed, the object of completing the daily audit of the previous day's work would be defeated. The cashier will retain the duplicate of the customer's voucher, sometimes known as the "Customer's identification of sale." This duplicate voucher represents the actual cash received by the cashier, and also represents the amount of the sale of the upper part of the check. These vouchers are turned in at the end of the day by the cashier. Such vouchers are assorted to account for any missing vouchers, and then totaled to account for the amount of cash received by each cashier. These totals must be reconciled with the cash turned in to the chief cashier at the end of the previous day.

Refunds.— Refund checks may be cashed by any cashier in an establishment. Some organizations may have a central station for such refunds. This does not necessarily prove good efficiency, nor is there any special result obtained from setting up a station for this express purpose.

A cashier who cashes a refund or accepts it as a part payment of merchandise or as a full payment of merchandise, will consider such refund as if it were actual cash. The total amount of the cashier's vouchers for the day should be an equivalent to the amount of the actual cash plus the amount of cash refunds paid out. The reconciliation of her cash for the day should be all sales checks, less refunds checks.

Comparison with Chief Cashier.— Aside from the audit of the individual checks as heretofore described, at the close of the day the cashier will set up a recapitulation of the amount of cash which she turns in to the chief cashier. This is the first check of the cashier. At the same time, a receipt goes to the sub-cashiers for the amount of actual cash turned in at the end of the day (see Form 44).


Form 25-2 250-6-18

Reg. Slip of

Date No. C400

DEPT. REL.	REG. AMTS.	
Total		

Error Slip

Total

Cash

O. K.	SH.	SUR.

Total Slip of

Date No. C400

Notes		
Silver		
Gold		
Checks		
Refunds		
Receipts		
Total		

Dept. Teller

Stamp Reg. Amt.

Do you know all the rules? Do not be short or surplus
You will be charged with all shortages.

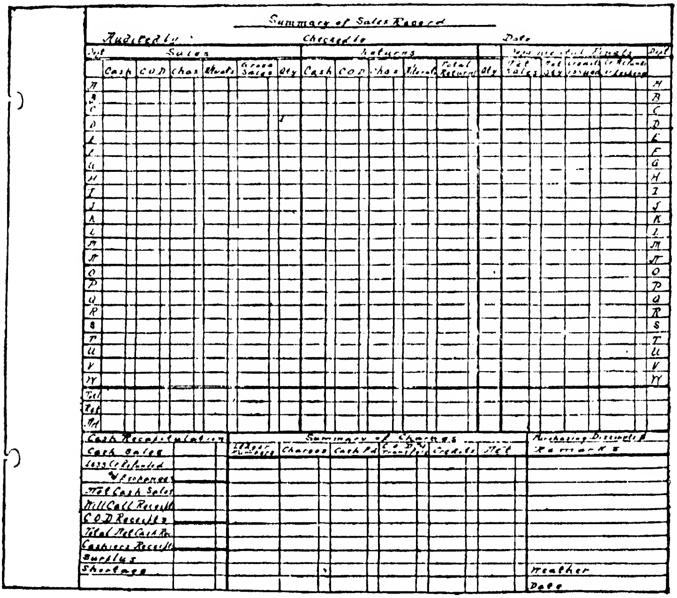
Form 44.—Station Cashier Reports

Cash Auditor's Summary.—A summary of each sales check by departments is set up on a form described in Form 46, in which the date of the audit, sales clerk number, the serial number of the book in use, and the checks number, at the beginning and ending of the day, are recorded. From this tally, the amount of the cash sales, charges or C. O. D.'s will be entered, and any charges that are made for alterations or extra charges for any special order work, those in a measure, made foreign to the express purpose to which the store may be established, will be entered in a column provided for the purpose.

The sales of each clerk will then be added crosswise in

order to obtain the total amount of a sales person's sales for the day. The totals of all sales person's sales will be the total amount of the sales.

The total sales for cash, C. O. D.'s and charges, with the corresponding credits and refunds and other data, are



FORM 45.— SUMMARY OF DAILY SALES

transferred to a final house record or "summary of sales record" as found on Form 45. All entries from this sheet are transferred to the department sales record book. The auditor-in-chief must also set up the sales portion of the accounts receivable control for final posting to the general ledger. These controls must correspond to the control as set up by the ledger clerks of the accounts receivable ledgers.

Where government taxes prevail, the space for remarks

will indicate the department, amount of net sales, and tax collected.

Over and Short.— Very often a reconciliation of the cash sales and the cash turned in to the chief cashier will balance. More often, there will be a difference, either shortage or "over." It seems impossible that such things should exist. Still, consideration must be given to the fact that many thousands of sales occur during a day's business, and that mistakes are inevitable. Care and caution prevail at all times, but differences cannot be obviated.

A listing is made in the general cash book of the overages and shortages. At the end of the month, postings are made to the general ledger account, known as Over and Short. At the end of the fiscal year they are charged off to the P. and L. (profit and loss) account.

The over or short accounting, sometimes referred to as surplus or deficit of daily audits, is the result of making wrong change, lost cash, sales checks still unaccounted for, or dishonesty. Reluctance should be paramount in the thoughts of an executive examining the summary sheets, to even infer dishonesty, where a shortage is shown in the cash audit. Missing cash sales checks and irregularities have often been discovered, but caution is advisable for all investigations.

C. O. D. Checks Audit.— The audit of C. O. D. checks takes on an entirely different aspect from the audit of cash sales checks. Cognizance must be taken of the fact that part of the C. O. D. sales is allied to the cash sales audit. An instance in which such sales checks become a part of the cash sales check audit is seen in those C. O. D. sales where a part payment has been made. In such an instance, the amount of cash paid is added to the day's audit as so much additional cash sales.

A distinction is made in C. O. D. checks where a customer makes a deposit on her purchase and wishes the mer-

chandise sent C. O. D. This form of C. O. D. check will be known as PART PAID C. O. D. Where a C. O. D. sale is effected, and the customer has made no payments whatever, nor applied any credits that she may be holding against the house, such sales will be known as a STRAIGHT C. O. D.

Audit Working Sheet													
Audited By					Dept							Date	
Description				Sales						Charges			
Date	Sales Clerk	Serial Number	Check Number	Cash	Charges	C.O.D's	M/t	Qty	Total	Returned or void	Qty Ret	Net Sales	Net Quantity
													Over

FORM 46.—AUDIT SUMMARY

C. O. D. at the Source.— Assume that a C. O. D. transaction has been made in any department of the organization. Promptly upon the customer's leaving the department, the C. O. D. will be sent to the auditing department, where a C. O. D. number is applied to that sale. Whether a department store carries a separate check known as C. O. D. check or whether the sales check in use is a combination of either cash sales, C. O. D. sale, or charge sales

eck, it is incumbent upon the sales person (and this rule ust be enforced rigidly by the manager of the department : manager of the floor) to see that the C. O. D. check is nt to the auditing department to receive the next open

INSTRUCTIONS

Get list of Sales Clerks in the Department.

Check tallies with the list to account for each clerk.

Check tissues with tally to correct any errors.

Before putting tissues back in the tally, count the number of garments hat have been sold and put the amount on the tally in blue pencil.

Audit Sales Clerks checks with her tally.

Add cash on tally Add charges on tally Add C. O. D.'s on tally	Put the amount of cash, charges and C. O. D.'s on the tally in blue pencil.

These totals must be correct.

There should be no missing cash checks or C. O. D. checks.

Missing charges may be held in the Credit Department.

When a charge is missing enter in book the Sales Clerk's number, the series number of check, name of agent, name of article, and the price of the article. If the check is O. K. the following day, O. K. the entry in the book and pass through with the charged checks. If any cash or C. O. D. check is missing locate it the same day. Find cash voucher for cash check or inquire at the Inspectresses' desk about the C. O. D. check. If not located, inquire Delivery Department and Alteration Room. When finished with the auditing and adding, copy the amounts that are on the tallies, on this sheet.

Balance this sheet, file away cash checks, pass charge checks and C. O. D. checks with this sheet to the Auditor-in-Chief.

Be careful of missing checks. Be on the lookout for missing charges.

Remember

You are examining important records.

When in doubt about anything ask the Auditor-in-Chief.

Never take anything for granted.

You must be positive your examination of this audit is correct beyond a question of doubt.

Accuracy, defined, means exactness, to do with care, without mistakes.

FORM 47.—AUDIT SUMMARY
(Reverse Side of Form 46)

C. O. D. number. A clerk is specially employed for C. O. D. transactions in the auditing department.

Upon the arrival of the C. O. D. sales check at the auditor's department (for a number) the check will be regis-

DENNEY TAG CO WEST CHESTER PA

Dept. C.O.D. A 39146

In case of Error or Exchange, return this card intact.

C. O. D. AMOUNT TO COLLECT

Dept. | If this package is returned the reason therefor must be written in margin below | A 39146

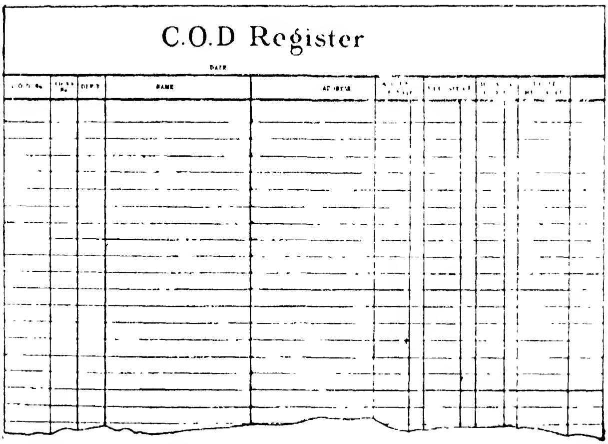
Reason

C. O. D. AMOUNT TO COLLECT	SALES NO.
DATE SHIPPED	DATE RETURNED

THIS STUB IS TO BE DETACHED BY THE DRIVER AND RETURNED WITH AMOUNT OF CASH COLLECTED TO THE C. O. D. CASHIER.

FORM 48.—C. O. D. PASTE CARD

tered on a C. O. D. register, Form 49, giving the next consecutive number, the clerk's number effecting the sale, the department, the name and address of the customer, and the amount of the C. O. D. to be collected; also the time that the C. O. D. check arrived at the auditing office. This sales check with the C. O. D. number will be returned to the sales person in the department whence it came. That sales person will attach the C. O. D. check to the merchandise



FORM 49.—C. O. D. REGISTER FOR DELIVERY DEPARTMENT OR OFFICE

and in turn will either be put in parcel form by the department wrapper, or shipping department, and the C. O. D. sales check either pasted to the package or pasted to a manilla card with a string attached to such card, which will then be termed a String Ticket. This ticket is to be attached to the parcel. It is then ready to be distributed by the delivery department to the route to which it belongs, and to the proper driver.

The delivery department must register all C. O. D.'s on a separate delivery sheet, known as a C. O. D. delivery sheet (see Form 50).

Boxes ______
Pkges. ______
Barrels ______
Burlap ______

№ 22600 **H**

Date ________________ 191

Driver ________________ Boy ________________ Route ________________ Time ________________

		REGISTER	SALES No.	NAME	ADDRESS	NO PKGS	C. O. D	PAID	RETURNED	REMARKS
	1									
	2									
	3									
	4									
	5									
	6									
	7									
	8									

FORM 50.— DELIVERY SHEET

C. O. D. Customer's Record.— At the time that a C. O. D. check is sent to the auditing department to be registered for a C. O. D. number, the registrar will also fill in a C. O. D. card which is kept in a file, alphabetically arranged or numerically arranged. On this card the name and address of the customer, and in care of whom the package is delivered, will be mentioned. The check number, the department, the clerk's number, the amount of the sale,

FORM 1M-1-13-1M

C.O.D.

No.________

Name ________________________________

Address ________________________________

Care of ________________________________

CHECK NUMBER	DEPT	CLERK	AMOUNT OF SALE		DATE OF SALE	DATE PAID		DATE RETURNED		COMMENT

FORM 51.— C. O. D. CUSTOMER'S RECORD

and the date of the sale are also given. In some organizations a central station in the store or on each floor is maintained. At this station the registration sheets are made, also the cards kept. The object is to set up a record of all customers who are in the habit of purchasing from the store C. O. D.'s. Should the C. O. D. be refused when delivered the return, as shown on the delivery sheet, will be recorded on this card, giving the date of the merchandise being returned to stock. If a reason is given for the

refusal of the merchandise, this reason is recorded on the card. The prevailing reason will be what is known as D. W. (don't want).

Should a second C. O. D. be sent to the customer and returned with the same comment, when a third C. O. D. sale is effected, the management will be notified that the customer is one who habitually purchases C. O. D.'s and refuses to accept them. Disposition is then made of the package in accordance with the judgment of the management.

C. O. D. Ledger.— The C. O. D.'s having been registered and the individual customer's record having been established, a C. O. D. ledger clerk in the delivery department will record in a C. O. D. record book the time when the C. O. D. package has been placed in the delivery department for routing, the date sold, and the department from whence it was sold, the clerk's number, the C. O. D. number, the name and address of the customer, with the date shipped from the department, the amount of the sale, and, if a part payment, the amount of such payment; also filling in the column provided for the C. O. D. to be collected. This is shown on Form 8.

Promptly upon the driver's return of the C. O. D. delivery sheet, this ledger will be checked, showing the amount paid or whether the merchandise has been returned to stock. It is necessary that the reader thoroughly understand this procedure before entering into the details of the audit, as it is essential that the complete cycle of the C. O. D. transaction be comprehensible before the auditors can proceed with the audit of C. O. D. sales.

C. O. D. Sales Checks Audit.— The foregoing description of the various methods of procedure that the C. O. D. sale takes into effect is followed by the result that the duplicate of the sales check is received in the Auditing department. Here is followed the same procedure of assortment

Clerk

No. 8601

C. O. D.
CASH

SHIPPING TAG

DATE

M

STYLE No.	ARTICLE	PRICE, ETC.	
ALTERATION			
EXAMINED BY	Total		

Date Shipped

COUPON No. 8601

CLERK

DATE

M

STYLE NO.	ARTICLE	PRICE	
ALTERATION			
	Total		

FORM 52.—C. O. D. CHECK AND SUPPLY TAG

by serial number, generally known as book number; also of taking the consecutive numbers of the checks contained in each book to allow for missing checks, in the same manner as cash sales were handled, of segregating these C. O. D. checks by departments and then summarizing the amount of the C. O. D. sales by diverse departments in order to obtain departmental sales. The audit of all of which is enumerated in order to obtain the C. O. D. sales for the day. The listing of the sales by clerk numbers and departments is on Forms 46 and 47. A control for the C. O. D. ledger is set up from Form 45 for the debit charges to this account.

Dr. C. O. D. account with sales.
Cr. C. O. D. account part payments.
Cr. C. O. D. account cash collections.
Cr. C. O. D. account with returns.

Charge Sales Check Audit.— Charge sales are entirely different from either cash or C. O. D., inasmuch as the merchandise purchased by the charge customer is either taken with her or left for delivery at her residence. The general procedure is that of opening an account in the Credit department in the same manner as prescribed by any Credit department of a wholesale or a manufacturing organization, with the exception that individual customers may not have a commercial rating. Then the result is that private investigations are necessary to determine upon the line of credit allowed to the customer. The credit department will then set up a record of all customers and, by a card system, maintain a record for quick information as to the credit standing of that charge customer — whether she be a delinquent account or thoroughly responsible for her purchases, or whatever other information is necessary to determine upon the line of credit.

There are several devices in use. One may be a house

telephone system, where many telephones are conveniently placed in each department and connected with the credit office in order to telephone the credit department to ascertain whether a charge can be passed upon.

In the smaller retail organizations, card indexes are maintained in the various departments for the sales person's information in waiting upon the trade of a charge account.

Having passed upon the credit, with the charge sale now effective, the duplicate of the sales check is collected hourly and deposited in the auditing department. These charge checks are assorted by the department serial numbers and the number of the checks are reconciled along with C. O. D. checks and cash checks in order to account for all sales checks during the course of the day's business, and to set up a record of missing checks. A list of missing checks is then given to the house tracer of the Auditing department, who will locate and account for such checks in order to complete properly the day's audit.

Having set up a charge sales record by departments, to warrant its correctness a verification is made of the extensions and additions of the sales checks. The voucher attached to each check is passed on to the auditing department by the accounts receivable department.

In many department stores there is a class of business carried on by what are known as Purchasing Agents. The manner in which these Purchasing Agents carry on their trade varies in many respects. The only interest that the department store has in these Purchasing Agents is to the extent where such agents issue an order on the department store to sell or deliver merchandise to a second person, who will be the customer of the Purchasing Agent.

These are known as Store orders. Where a charge sale is effective on a store order from the purchasing agent, that store order must be attached to the sales check. These store orders are further verified with the sales check in the

Accounts Receivable Department and the total amount of the charge sales is listed by departments on the summary of sales record. The individual bookkeepers controlling Ledgers will enumerate the total amount of the sales posted in their ledgers under the letter of the alphabet by which the ledger is known. The total of such sales is then added to their individual control for trial balance purposes, which must agree with the total charge sales as concluded for the day by the auditing department. This gives a double check and audit of all charge sales.

A charge sale may occur and for diverse reasons may be held up by the credit department. The selling departments will record the sale on their tally. The tissue copy of the sales check supports the entry on the tally, yet the charge check will be missing. The tracer, in running down this missing check, will find that the merchandise and sales check are held up in a department known as "Hold for orders." The auditing department when familiar with the conditions effecting the missing charge check, will record such missing charge check in a tickler. But the check must not be considered as a sale until it has been passed by the credit department and sent to the Accounts Receivable Department.

The tickler for missing charge checks must be gone over every day. No checks therein should be permitted to remain open longer than one week.

Part Paid Charges.—There are instances where a charge customer will purchase an article, will pay for part of her purchase, and will not desire to have the entire article charged. The cash on this charge will naturally be received by the cashier in the department. The amount of such cash paid in is then considered as a cash sale and the balance as a charge sale. The auditing department will make their discrimination in the charge sales by using the balance of the check, which is a charge, as a charge sale;

and the part paid cash will be entered as so much cash received and recognized as a cash sale.

There are stores which will consider the total amount of the sale as a charge and the part paid in cash as a payment on account. But this procedure does not record the exact transaction. It may be a matter of opinion or choice which method should be adopted. However, the former has been proven to give the desired results, though the latter is in considerable use.

Transfer Checks.— Particular attention must be given to the auditing of a class of checks known as transfer checks. The different sales checks made in the various departments of the store must be assorted according to the serial number by which the transfer check is known. The auditing department reconciles these individual checks with the transfer sales, verifying the correctness according to both additions and postings on the transfer card. Upon the completion of such verification and classification of the sale, that is, classifying of the cash, C. O. D. or charge sale, they are summarized and transferred to the various departments where the sales were effected, and added to the summary of the sales record in order to ascertain the completed sales for the various departments of the establishment.

Auditing departments dislike auditing transfer checks, which makes it more important that a special report be rendered monthly of the transfer sales. The tally card of the transfer checks and all their originally attached checks or supporting sales checks, as enumerated on the transfer tally or transfer card, should be assembled before beginning the audit.

Application of Credit Refunds to the Audit.— All refunds or credits issued by the store are, without question, either in duplicate or triplicate. The cashier who reimburses the customer for any cash refund voucher presented

must use such refund check as a part of her cash. These refund checks are turned over to the auditing department by the chief cashier. These checks along with charge credits and C. O. D. credits are verified with the duplicate copies or tissue copies of the original check that has been issued. When they are found to be correct, they are enumerated in their various classes. That is, the total amount of cash credits is deducted from the cash sales in order to ascertain the net cash sales for the store. C. O. D. credits are likewise deducted from the total C. O. D. sales from the individual department in which it is affected, in order to ascertain the net C. O. D. sales. The same is applicable for charge credits against the charge sales.

Part Paid Charge Credits.— Where a part paid charge is returned, particular attention must be given to that type of credits. The amount of the original charge must be referred to the ledger, where a description of the original sale will be found. This is done in order to pass a further charge credit and to make a cash refund only for the amount of cash paid in, which amount of cash is applicable to cash sales. The policy in handling part paid charges effects the reversing of the charge in making credits.

Part Paid C. O. D. Credits.— The same method described in the part paid charge credits is applicable to the C. O. D. part paid credits. When a part paid credit is desired from a C. O. D. sale, reference should be made to the entry in the C. O. D. ledger. Many stores require the sales check to be presented with the merchandise when any credit is requested. But, very often, indeed, the customer misplaces the check and simply presents the merchandise or makes a claim for her credit. This entails investigation. Very often the customer will become irritated because she is obliged to wait while investigations are made. The delays are often eliminated through efficient and general

house systems, which the author treats of in the chapter on Turnovers and Merchandising.

Alteration Sales Audit.—The alteration department, which is a workroom conducted for the altering of clothing, whether it is men's or women's apparel, has a separate record of its sales. These sales are charges made to customers for style changes or proper fitting of garments. These sales may be either cash payments or charges, but they should, under no circumstances, be C. O. D. In the case of a C. O. D. sale that requires an alteration, a part payment of such C. O. D. sale must be gotten in order to insure the customer's taking the garment, including a sufficient compensation to cover the alteration charges and the changes made in the merchandise. A separate sales check is very seldom made for alteration sales. Exceptions are only where the customer's own merchandise is offered to the store for alteration, and the store accepts such alteration for the reason that the patron is a permanent customer of the store. This is generally termed an "accommodation."

The auditing department will list under a separate record the amount of alteration charges appearing on each sales check. When an alteration appears on a sales check for any specific department, the sales of that specific department are deducted to the extent of the alteration charges. The alteration charges are then considered a sale to the credit of the alteration department. At the close of the day's audit, the total amount of alteration charges or sales is enumerated and passed to the credit of the alteration room. This is done in order to set up an account for the alteration department, in which account it is debited under various headings with the overhead costs as well as labor expenses. Thus a profit or a loss may be known at any period, as well as the cost and the income obtained from such alteration department.

Commissions.— The custom in use in most stores is to pay in addition to the stipulated salary to sales persons, commissions based on a certain amount of their sales. After completing the audit of the sales checks and after the tallies have been audited properly, the tallies are in turn sent to the paymaster's office, where a commission record is set up. The same method is applicable to P. M.'s (see Form 13).

CHAPTER V

BALANCE SHEET

Open Corporations.— Corporations whose stock has been found attractive for investments when sold on the open market, are known as open corporations. These corporations may be any organization incorporated in any state of the Union or in any foreign country. The amount of stock of such corporations is controlled by the stipulations of its charter and the statutory individual requirements of the state of its incorporation. The stock or share may be of different forms. Its value and voting powers are subject to the provisions of the charter or by-laws of the corporation.

Close Corporations.— This form of corporation is generally formed by companies desiring to enjoy the privileges granted to corporated organizations. Usually close corporations are family affairs or are composed of three individuals or small groups of citizens, whose interests are indicated by the number of shares or certificates of stocks held by these individuals in such organizations. The voting power and distribution of profits for dividends are generally represented by the certificates of stock held. The capital of such corporation may vary from a minimum of $500 (permitted in some states) to any amount desired, providing the amount paid in to the corporation within a stipulated period complies with statutes of the state in which the organization has been incorporated.

Limited Liability.— Generally, in most states of the union, in the event of the insolvency of the corporation, a stockholder is liable only to the amount of stock he may hold. There are exceptions in some states in relation to

banks and trust companies, where the stockholder is liable for the par value of the certificates held. However, the liabilities of every corporation are governed by the statute.

A subscriber to stocks in a corporation that has become insolvent may be held liable by the creditors of such corporation for the difference between the amount he has subscribed and the par value of the stock. However, the corporation itself cannot hold the subscriber liable for the balance of his subscriptions to the amount of stock subscribed for or for par value of the stock.

Domestic Corporations.— A corporation which carries on its business in a particular state should obtain its charter of incorporation in the state where it is conducting its operations. When such a corporation carries on its principal business outside the state of its incorporation, it becomes a foreign corporation and must comply with the formalities prescribed in the state doing business. Organizations may incorporate in one state and do business in another. In such instances, a permanent office with its stock records must be kept in the state of incorporation. On account of certain privileges and rights allowed in some states, this mode of procedure is often followed.

Foreign Corporations.— A corporation carrying on its business in a state other than the state of its incorporation is liable to restriction in its operations and is not recognized as a corporation. Its directors and stockholders may be considered as a partnership and liable as a partnership organization. Where, however, such foreign corporations have complied with the necessary requisites that the law provides, the same privileges may be accorded them as are enjoyed by domestic corporations.

Stock Certificates.— The author does not presume to describe fully the various stocks, their functions, nor legality under diverse conditions. But, in passing, he describes them where they may affect the organization and system of

the retail establishment within the scope of its accounting procedure.

Stock certificates of a corporation, like a mortgage or a real estate deed, are merely an identification supporting claim of ownership. This does not imply that a lost certificate relinquishes the owner of his equity. The stock books of record verify the owner's claim just as a real estate deed does, generally being recorded upon municipality records. However, lost certificates of stock cause annoyance in obtaining duplicates, though the law requires corporations to issue duplicates.

A corporation may receive its charter for any capitalization that it desires, providing the fee is paid to the state through its secretary until such stock is taken up and paid for by the incorporators or stockholders. The stock representing the capitalization is termed "Unissued Stock." It is not an asset and must not appear as such on the books of the company. Likewise unissued stock has no relation to treasury stock. Treasury stocks are those stocks of a corporation which are fully paid for and through some business transaction become the property of the company. They may then become an asset of the corporation, but legally they have no voting power, nor can they receive dividends..

The stock issued by the corporation represents that portion of its capitalization that has been paid up by either cash or other tangible property which becomes an asset to the corporation. Such stock issued may then be designated as "ISSUED STOCK."

Common Stock.— Stock known as common is such stock as carries no preferential benefits and receives its share of declared dividends or profits after all distribution of profits and claims has been made. This, however, is subject to the by-laws of the corporation or the specification of privileges indicated on the face of the stock.

Preferred Stock.—This classification of stocks receives the benefits of all profits or dividends they represent in priority to other stocks. There may be cumulative or non-cumulative dividends. Cumulative preferred with a specific percentage of dividends are such stocks as receive their dividends at stipulated periods. In the event that the profits are not sufficient to pay the dividends and only part dividends can be distributed from the profits of the company, the unpaid dividend may be carried over from year to year until the company's profits are such as to pay the dividends. Thus, profits become a prior claim to preferred stock. The balance may then be declared as dividends to common stock. Non-cumulative stocks are stocks where profits are not sufficient to declare dividends at specific periods. They do not carry any obligation on the part of the corporation to make good the insufficient dividend at a later period. Not only does the preferred stock hold an advantage over all other stocks, as to dividends, but considerable preferences are granted to it through its charter and by-laws. Many companies will set up a reserve from their profits to meet cumulative dividends. They may also set up a reserve to retire the preferred stock at a specified period.

Debentures.—The definition of a Debenture is "An unsecured acknowledgment of a debt with a promise to pay at a stipulated time or sooner." Debentures may sometimes stipulate a priority of payment in the event of a dissolution of the company or in the matter of insolvency. Often debenture bonds may protect the investor through special provisions obligatory on the part of the directors or upon mortgages. Such debentures are rare in the United States, though common in England. A debenture whose promised interest or principal has not been met can only have the same legal redress as an unpaid note, unless such a debenture carries with it collateral as here described.

Bonds.— Bonds are issued for the borrowing of money covering a period of years. They are secured by the assets of a corporation and a promise to pay the face value at the termination of the time stipulated in the body of the instrument. Bonds are negotiable instruments when payable to bearer or holder or to order, or when registered and having priority in claim upon the corporation. Statutory provisions regulate the issue of bonds by corporations. These generally are stipulations not to exceed a portion of the capital stock based upon the value of the assets. The laws of the state in which a company is incorporated should be searched thoroughly prior to issuing bonds, in order that legality be conformed with.

Coupon bonds are those bonds upon which are attached promissory notes payable to bearer, representing the accrued interest at specific periods. The periods, as a rule, of semi-annual interest payments, continue until the face value of the bond becomes due and payable. Registered bonds are those which are registered upon the books of the corporation in the name of the owner. The interest is payable by bank checks to the owner of record. In the case of coupon bonds, prior to maturity of interest, the corporations liable for outstanding bonds will deposit with a banking institution the full amount of interest due. This bank will pay all coupons presented, cancel the coupon and register it into a regular coupon register record. These records coördinate with the series number of the bond and the coupon number, and are pasted in such record for further reference. For example, a bond issued for $1,000 for 20 years at 4 per cent interest payable semi-annually will have 80 interest coupons attached. Each of these coupons is numbered consecutively. The first maturing interest coupon is number one and the last maturing coupon is number eighty, at which time the face value of the bond becomes due and payable.

The advantages of coupon bonds are that they are payable to the bearer and are readily negotiable, whereas the registered bonds require the assignment and transfer on the books of the corporation issuing the bonds. In event of a loss, the owner is protected, which is not the case with the coupon bond.

A company may issue several bonds, such as first, second or third mortgage bonds, sinking fund bonds, convertible bonds, collateral bonds, etc. Where a company issues more than one mortgage bond, the subsequent issues become junior liens. That is, the first mortgage bond will be a prior lien to all subsequent mortgage bonds issued.

Convertible bonds are such that may be converted into other securities issued by the company or may be converted into stock of the company as prescribed in the bond of issue. Collateral bonds are generally secured by collateral of other companies.

Trial Balance.— Trial balance is very often misinterpreted by business men who are not accountants, as being a statement showing affairs of a company. This is brought about through confusing interpretations of the balance sheet. The trial balance should have no meaning, whatever, to the management of an incorporation or the owner of a business organization. It is merely a proof sheet to the bookkeeper to prove that his postings and his work for a specified period, generally monthly, have been done correctly. It does not, however, prove that the work, in all its phases is absolutely correct. While the postings may be correct, it very often may happen that a debit or a credit may be posted to the wrong account. Still the work will be in balance. The trial balance, therefore, is a summary of all the debits and credits of a ledger, which when separately added to a total should equalize. It is essential, before entering into any statement regarding the condition of affairs, that all debits and all credits should equalize.

Without this it would be impossible to set up correctly the balance sheet.

The balance sheet of a commercial enterprise or of any organization is a statement showing its financial condition at a particular time. It summarizes all the assets, which is a listing of all the cash, stock in trade and investments of outside moneys or property of an organization. In fact, it represents everything that may be converted into cash or that may be recovered in cash, from which entire total the liabilities of the organization, regardless of what their nature may be, is deducted. As a result, the net worth of the corporation, individual or partnership shows.

The term "net worth," however, is generally applied to individual or private enterprise, and is supplanted by the term of "surplus" when applicable to corporations.

Reading of the Balance Sheet.— Not a few men of business affairs are properly able to read the balance sheet. It should be incumbent upon the accounting department or office management presenting a financial statement or balance sheet to have it so set up that it shows the conditions of business affairs. So that, though such person is not an accountant or is not versed in accounting technicalities and terms, he should find the balance sheet readily discernible. To do this, the accountant should so set up the various accounts that the terms will be self-explanatory. The current assets should be so set up that they can be compared readily with the current liabilities, and so that the ratio of current assets over current liabilities can be seen at a glance. The owner of an organization or manager of a corporation should be able to ascertain the net worth at a glance. From the capital invested he should be in a position to recognize readily the net working capital involved. This may be found by deducting the total current liabilities, total reserve investments, and fixed assets from the total assets, which would give the amount of working capi-

tal. In the case of a corporation, the total amount of capital plus surplus to be reduced is obtained by deducting fixed assets, outside investments and even deferred assets. The remainder is the working capital of the organization.

It is to be noted that a financially well managed store should average its cash on hand to be not less than 2 per cent, and such percentage may average up to 5 per cent, of the gross annual sales. The current liabilities should never exceed 18 per cent of the annual sales and should be kept down to 10 per cent to keep within the danger zone of overborrowing. The working capital of the department store should be not less than 30 per cent, and should average 55 per cent of the total capital.

The ratio of liquid assets over liquid liabilities should be two to one. That is the percentage of assets readily converted into cash to those of quick liability, though 75 per cent of liquid assets shown as liquid liabilities is a conservative showing.

Current Assets.— Current assets is a term applied to such assets as can be turned readily into cash. They may also be termed liquid assets. Another term is quick assets. The term quick assets is generally used by bankers in describing such assets as are readily turned into cash. In setting up a balance sheet, the first group to appear is that of the quick assets. These are headed by the term "CURRENT ASSETS." All assets under this term must be such as can be audited and verified readily as to their correctness.

Cash in Bank.— All cash receipts and disbursements will appear in the cash book or a subsidiary cash book in which all vouchers, whether bank checks or authorized cash vouchers, will be listed. Periodically all of these, depending upon the volume of cash disbursed or received, will be reconciled with the bank in order to determine the correctness of book records corresponding with the bank balances in the institutions where the business does its banking. All

checks issued by the company which have not been put through the clearing house will naturally show a larger bank balance. While this is a fact, it does not authorize a company to correct its cash in bank record on its own book to that of the bank.

In reconciling the business balance with the banking balance, checks issued by the organization, not having been cleared through the clearing house, should be deducted from the banking balance with other banking charges. Also checks that have been certified and the net balance at the bank should equalize the balance as shown on the books of the company.

Cashier's Balances.— It is customary for all cashiers to carry a sufficient amount of cash in their trays or tills to be used for change. This amount varies from $10 up to perhaps $100. In addition to this, the general cashier will carry a balance from $1,000 upward, depending upon the volume of business that the company may transact. All this cash is generally small currency, such as pennies, five cent pieces, dimes, quarters, and half dollars. The general cashier is charged with the total of all cash; that is, not alone the cash which she maintains in her own safe but that of the individual cashiers stationed in the various sections of the store. In turn, the chief cashier will hold the individual cashiers accountable for their cash balances and the cash turned in daily from sales. The general cashier will periodically audit station cashiers' trays or tills as to their daily balances.

It will readily be seen that a certain sum of money will be tied up. This money, while a current asset and rightfully termed a liquid or quick asset when compared against liquid liabilities, will increase the ratio. But cognizance must be taken of the fact that the cashiers' balances are a withdrawal from the actual current assets and should only be used if the company were in liquidation. Cashiers'

balances will decrease the turnover of the working capital, but the necessity for the use of change requires that these sums be carried by cashiers, thereby losing its actual worth as working capital in relation to merchandise.

Cashiers' balances should be checked up at least once a month to determine their accuracy when compared to the general ledger account.

Paymaster's Balances.— The pay-roll department carries a working fund, the uses of which may be varied. This fund is generally in proportion to the number of people employed and the amount of the weekly pay roll. It may be used for advances on salaries to coworkers, which advance is deducted on the pay roll day, or it may be used to pay off help who have been discharged or who may have resigned their positions. At best, advances on salaries are bad policy, not only on the part of the coworker but employer. Quoting Shakespeare's *Hamlet,* "Neither a borrower nor a lender be." However, where 100 per cent coöperation of the coworker is required, it is necessary to meet such coöperation on the same footing of reciprocity, but to discourage advances on salaries in a diplomatic fashion.

Paymaster's balances or working funds should periodically be checked up. In very few instances at the closing of the pay roll date, the full amount of the general ledger account calling for the paymaster's working fund should be on hand in the paymaster's safe at the close of such pay roll day.

Office Petty Cash.— The balance of the office cash on hand at the close of the month's records is a part of the current assets and should appear as such on the balance sheet. This office cash, better known as Petty Cash, should be so kept that a regular audit will verify the correctness of all expenditures in a manner similar to the reconciliation of bank vouchers. Generally, the working fund for petty cash is used to draw funds as requirements may determine,

against which vouchers will be made, properly countersigned, for the various petty expenditures.

Delivery Working Funds.— This fund, used by the chauffeurs or drivers, is in a measure the same as the cashiers' balances, though not in the same proportion as that of the cashier's. Drivers' funds vary in amounts from $5 to $10, generally $5. Each chauffeur or driver is charged with a stipulated working fund which he uses as change when delivering a C. O. D. or a part paid sale. This fund, like other funds, should periodically be audited for a verification of the General Ledger account and to support correctness in placing such funds as may appear under Current Assets.

Other Cash on Hand.— Under this caption of other cash on hand, which might appear under current assets, are the classing of the month's books, which would represent the cash receipts from cash sales or other collections made either too late to deposit in the bank, or carried over on account of holidays or Sundays, or not deposited for any other reason. Such cash should be compared with the daily audit of sales checks and further entries in the various cash books to determine correctness, and should appear under the various Cash records in the general ledger until distributed to its proper destination.

Accounts Receivable—*Charge Accounts.*—The accounts receivable will represent charges to customers who enjoy privileges of a charge account with the company. However, before placing the amount of accounts receivable from the ledger on to the balance sheet, careful attention should be given to such accounts as are known to be uncollectable. In such cases these accounts should be written off and charged to provision for bad debts and doubtful accounts. This is done for better reading, and to show the condition of accounts receivable from the balance sheet. Very little additional work is required on the part of the individual

ledger clerk in setting up their trial balances to show accounts which have not as yet reached an age of 90 days, and other accounts which may have been unpaid for four months or longer; also accounts that have been due over one year. While it seems that such conditions should not exist, it is doubtful whether every organization in a department store business would show all its accounts to be of a very recent date.

If an account is six months old and it is doubtful whether its face value or any part thereof can be collected, it is best to write the amount off to bad debts and doubtful account, and to set it up in the suspense ledger as a record. If an account has been allowed to lapse six months, and the chances of collecting the account cannot be said to be very encouraging, the account which has been permitted to run six months or a year and carried as Accounts Receivable should be corrected promptly. There are instances where legal action has been taken to collect accounts. In such cases, the account should be written off and charged to a Litigation account. Should judgment be received, the Litigation account should be credited and the Judgment account opened. This last account should appear in a class by itself on the Balance sheet (see Judgment) when judgment is taken or received.

C. O. D.s.—The amount open for C. O D.s appearing on a balance sheet should be checked carefully and compared with the ledgers as to accuracy. All open C. O. D.'s should be verified as to correctness, as it is possible that C. O. D.'s, having been paid off, or merchandise, having been returned to stock, have not been recorded properly.

Miscellaneous Accounts Receivable.—Moneys may be outstanding in different forms, other than charge accounts or C. O. D.'s. Such accounts might be for advances in lieu of contracts with coworkers, or unsecured accommodation where loans have been made. Individual accounts

should appear in the general ledger showing the various conditions surrounding the account. They should be set up to appear under Accounts Receivable, if the account is a collectable one. Its proper place as an asset depends upon the conditions surrounding the outstanding account and may be placed under current assets or deferred items.

Notes Receivable.— In the department store, notes receivable will seldom appear on the balance sheet for the reason that these transactions are such that they do not incorporate the necessity of accepting notes. However, there may be instances where notes are received by a store either in payment for merchandise or as indorsed notes accepted as security for loans or other commercial effects. These notes receivable should appear with as much detail as possible in the general ledger, the total of which is to be enumerated on the balance sheet.

There are instances where notes receivable held by an organization will be sent to a bank to be discounted. When this occurs the cash received from the bank will be a credit to Notes Receivable. But this is only the beginning of the transaction. An account should immediately be set up showing Notes Receivable discounted, which will be debited and a reserve set up showing a liability of the store for the amount of the note discounted. The interest involved for the amount paid to the bank, and the amount received from the maker of the note, should be taken care of by the elements surrounding the transaction. When the note is paid by the maker, the entry should be reversed if the note was discounted at a bank.

A store which does not hold a note or discount notes receivable, but finds itself indorsing a note with recourse, should immediately, upon the indorsement of such negotiable instruments, set up a provision for such indorsement to show the contingent liability of the store for their indorsement. Such contingent liability should not be writ-

ten off until the negotiable instrument, for which the store became the indorser, has been paid up fully and the debt canceled.

Inventories.— The monthly inventory appearing in the monthly balance sheet will be such inventory as is shown from the book records (see Form 25). This record is a perpetual inventory conducted in the same manner as a cash book, adding to the inventory all merchandise received and deducting therefrom all sales and mark downs or other elements that may arise. The net result is that the inventory is obtained daily. While this is a customary method for well regulated merchandising systems in department stores, such records are supported as often as once a week by physical inventories in the form of tests. Aside from these, there is the other quarterly or quarter annually inventory, with an annual inventory in order to obtain the figures necessary for the fiscal year's balance sheet.

In taking a physical inventory, special attention should be given to the account and the segregation of departments and the classification of merchandise in the diverse departments. Often inventory will be taken both at cost price and selling price, but when a department store accounting system has been established concretely and the merchandise system well enforced, it is quite sufficient to take the inventory at retail only. Thus, while saving a considerable amount of work in computing the cost and retail in obtaining the mark up, the final calculations will be much easier to ascertain by the results at retail. The cost or mark up by departments can readily be ascertained by taking the inventory at cost at the beginning of the fiscal year, adding thereto all the merchandise purchases at cost by departments, and deducting this result from the total amount of the sales during the fiscal year by departments, plus the inventory on net sales. This will give the mark up for merchandise during the entire year. This also is a proof

against neglect on the part of the buyer or department manager to report daily the mark downs, mark ups, or merchandise sold under cost. Oftentimes a proof of this kind will show surprising figures, and even differences existing between the daily merchandise control and the inventory. While every precaution is taken to guard against failure to record all mark downs by buyers or department managers, it will always occur in the best regulated stores.

In taking the physical inventory, each department should be tested by taking the various quantities making a comparison. The extensions and additions should be checked and verified before using the results in settling up the general ledger or departmental ledger accounts. In taking the fiscal year inventory for the closing year, it is customary in department stores and the larger retail establishments to have the manufacturers or wholesalers, from whom they make their purchases, send no merchandise during the period of inventory, and even to have them date all invoices either a week or ten days or a fortnight ahead in order that no new merchandise will be included in the inventory and the closing of all purchases will be recorded up to a given period. It can readily be seen that should this be eliminated, an incorrect inventory must result even though every precaution for accuracy has been taken.

Valuations of Inventories.— In manufacturing organizations, the taking of inventories will not only include the cost but all transportation charges. Very often the last price paid is taken as the cost of stock. This should not occur in the retail establishment. If an inventory is being taken at cost, the actual cost paid for the merchandise must be taken. Whether or not the market has fluctuated has no bearing whatever. Where an inventory is taken at retail, all fluctuations have already been considered. There are occasions where a trend of the market is such that the values of certain stocks have materially increased and may

remain increased for an indefinite time. In this instance, merchandise managers are prone to make mistakes by appreciating the stock. Good business principles will not permit such appreciation for the reason that should the merchandise sell at an advanced price, such profits are shown up in the Profit and Loss accounting, which is the proper place for such profits to be detailed. On the other hand, should a certain change in the market depreciate the value, the loss would show in the accounting statement.

Values should not be underestimated nor overestimated. They should always be taken at cost or market value, except where a department store controls its stock at retail. The accountant of such a store can readily ascertain what the cost generally should be by the method described in the inventory chapter.

Inventory of Merchandise in Transit.— An organization must assume liability for all merchandise in transit which has been purchased by such organization and for which they hold an invoice and Bill of Lading. It is realized that when merchandise is actually received in the premises of the establishment, the proper inventories will be enhanced. Still for the closing entries for the fiscal year inventory, provision should be made for merchandise in transit, and reversed after the closing entry or corrected at the time that the individual invoices arrive. Merchandise in transit may reach very large proportions. Should this be eliminated from the statement or inventory records, the true statement showing the affairs cannot be produced.

The same effect must follow in closing monthly records and in reversing the entries the first of the following month, in the same manner as accruals are considered.

Inventory of Supplies.— The listing of supplies will include such items as stationery, printed matter, packing materials, twine, porter supplies, etc., though the greater proportion of these supplies will be stationery and printed

matter. As an asset, they are, indeed, of very little value. But in an active concern they can readily be taken at full value and treated as such on the balance sheet.

One of the methods generally used in handling these items is to charge each invoice for stationery and supplies directly to the Burden of corporations under the heading of Indirect Expense. But the fact that all the stationery may not be absorbed during the current month, that it is charged as an expense and that a larger proportion may be carried over for several months thereafter, would not seem to be equitable in charging one month's burden instead of the burden of several months at a proportionate burden.

Accountants may argue that the inventory of supplies should be treated as a Deferred Asset in the same manner as postage stamps or prepaid expenditures. While it is correct to do so, the item of supplies with a department store or a retail establishment takes on huge proportions. Especially the stationery and printed matter become quite a factor in the management and the support of the policy on which a store is based. It, therefore, is logical to set up a supply inventory in the same manner as that of merchandise carried on in trade. In a going organization, it may be treated as a current asset. However, for credit purposes and the determination of liquid assets, it should be eliminated.

Decorator's Inventory.— While this item as an inventory might seem insignificant, and even at times impossible, yet an inventory taken of all the decorator's supplies would give astonishing figures. Under the heading of decorator's inventory would be listed all materials used for window display and interior decorations. Where a cost accounting is established in order to set up a proper cost to the various departments for window display occupying the display windows, any expenditures for window decorations should be a charge for window display advertising and should be dis-

tributed monthly to the departments occupying window space. Most department stores charge this expenditure to advertising, and others carry the purchase as an inventory. A decorator's inventory should always be perpetual. Any articles purchased must immediately be added to this inventory, and occasionally a physical verification must be made. Where purchases for decorations are not immediately charged against the operating burden, but are carried as an inventory, a depreciation of such inventory should be provided for.

Work Room Inventory.—It is customary in all concerns where alterations are made, especially in the case of ready to wear apparel, that a charge be made to the customer for alterations. However, there are not a few stores which make alterations free of charge. The outlay for these alterations is considerable, all depending upon the volume of business transacted in the apparel lines. Such purchases immediately become a charge against income. Where alterations are made free of charge, the purchase of materials becomes a direct charge for the upkeep of a department. In setting up an account for the alteration room where a charge is required for alteration, all the elements of material, labor and expense must be accounted for in order that a proper accounting be produced periodically of conditions applicable to the alteration department.

CHAPTER VI

BALANCE SHEET

Investments.— An organization having accumulated profits may either declare dividends and withdraw a portion of its profits, or make investments, or do both. Perhaps it may utilize such profits for expansion. In any case, where profits have been accumulated, careful consideration must be given to the proper working capital the business requires. To do this, the balance sheet should be analyzed carefully prior to a decision for making investments. All problems of future transactions, the standing of the store in its community, the necessity for replenishment of fixed assets should be considered. A careful investigation should be made of all reserve funds to cover future problems and the actual condition of such reserves. Thus, the working capital is determined upon to cope with present and future business requirements.

Circulating Capital.— In order that the working capital may be determined properly, every element of the store's merchandise must be taken into consideration. While it is conceded that increase of capital in a going business should be the result of accumulated profits and that this is obtained through the quick turnover of stocks, yet this is not sufficient reason why capital should be withdrawn for permanent investments. The merchandising records may be misleading. Prior to making investments the inventory should be examined as to the age of all stocks on hand. It may be found that a large percentage of merchandise is old and can be best given away, which results in a mark down to the extent of impairing the working capital.

It would be more logical to change the word " working "

capital to "circulating" capital, for it is not the working capital that conveys any direct interpretation in the department store. When all stocks in trade are rapidly turning, such stocks are logically representing the actual working capital. If the stocks are moving rapidly, their circulation is revolving the capital. Hence circulating capital is the stock in trade which is the greatest of the current assets aside from the actual cash on hand and in banks.

It is the sufficient circulating capital plus excess capital that must be determined upon prior to considering outside investments. That a sound, substantial business be established and every provision made for its soundness be maintained is a requisite for business longevity.

Bonds (as an Investment).—All investments should be in such securities that a ready market can be found at all times. This should be done not only properly to secure all withdrawals from the company, but also so that investments be used as collateral acceptable to financial institutions should the necessity arise. Should a decision be made for the purchase of bonds, the standing of the corporation whose bonds are to be purchased should be investigated carefully both from a financial point of view of current and future business, and also from the point of view of its past transactions in regard to its meeting previous obligations, bonded indebtedness and conditions of its stock. It should be determined whether, in issuing bonds, the corporation has complied with all the statute requirements and whether the proper percentage has been adhered to in relation to its capital and assets.

When bonds are purchased at par, the full interest that the bond carries is realized. However, if the bond is bought below par, not only a greater interest but an additional profit are realized, when the face value is paid upon maturity. In the case where a premium is paid for the purchase of a bond, that is, when bonds are bought above

par, not alone is the interest decreased but also an additional loss is accepted when the bond is paid at its face value upon maturity. Periodically, all bonds should be audited so that their correct values should appear on the balance sheet. The purchase price should appear at all times and also a reserve should be set up for market fluctuations should the bonds have a downward tendency.

Stock Investments.— Where moneys are invested in stocks of other corporations, the same procedure of investigation should thoroughly be gone into as in the investment of bonds. At no time should stocks be purchased on a part payment, better known as "on margin." To do this would take on a speculative aspect and the actual cash paid would be placed at the mercy of market conditions. All stocks for investment purposes should be purchased outright and the actual amount paid for them should appear on the General Ledger under Stock Investments. Where a corporation has a considerable outside investment, in securities, an investment record should be kept, known as an Investment Ledger.

Here complete details as to the description of stock will be recorded with the actual income set up for each particular security, charging the income with any brokerage paid at the time of the purchase. A corporation declaring a dividend to stocksolders may only do so out of profits earned. Such sums should be deposited with a banking institution against which dividend checks will be drawn to the order of all stockholders of record.

Where a dividend has been declared legally, the stockholder becomes a creditor to his pro rata share according to stock held. In the matter of insolvency and a dividend's having been legally declared and set aside prior to such insolvency, the stockholder's equity in such dividend is irrevocable.

Dividends.— Cash receipts from investment should not be credited to financial income from operations. To do this would be to set up erroneously a profit accounting to operations. Dividends should be set up under a separate caption of income preferably Income from Investments. Where a subsidiary ledger for investments is maintained, the dividends should be detailed in the various accounts, so that an annual statement may be set up.

Debenture Investments.— As mentioned in the previous chapter, debentures take on the same status as notes. It may be a short term or long term note, and at best, its investment is not a highly recommended one unless secured by tangible collateral. Though short term notes may vary from sixty days to seven or eight months, they are recognized as three or six months' periods, and traded in extensively on the open market.

The notes are from such makers whose commercial rating is recognized as a safe risk by credit investigators.

The greatest inducement offered for debenture investments is the large percentage of interest and the selling at a price below par as an opportunity for further profit or income at the time of maturity.

Investments of Reserves.— Where funds set aside for reserves are invested, all income from such outside investments should be added to the reserve fund's principal, thereby increasing the fund. Where income is received from sinking fund investment, which fund was set up to retire bonded debts, the income from investment should be used for the same purpose as its principal. Investing reserves assumes the risk of market fluctuations and particular care should be taken in the accounting of such investments. The investment must be considered at actual cost at all times until it has been converted into cash. The securities invested in must not appear as an asset on the books of the company. All records of such investment

should be in a subsidiary ledger. Or if that is not sufficient, the reserve funds being invested should be detailed in the general ledger under a separate heading for each investment.

Investments in Other Companies.— Where the officers of a corporation are interested in other companies or expand their business enterprises by organization of new companies, such organizations will be incorporated under their own charter and by-laws. This will be done for the reasons of privileges enjoyed by corporations. Some companies, however, may invest in another corporation, purchasing a block of stock. The amount invested becomes an asset on the books of the company doing the investing. Any dividends received from such investment must be treated as Investment Income and must not appear as an income from the companies' own operations. Should such investment ultimately prove a loss by reason of insolvency, the loss should be charged to surplus prior, providing that moneys withdrawn were originally from a prior surplus.

Employees' Equity in Investments.— There are occasions where an organization will make investments in which the employees of such an organization will participate. It may be in the form of buying property or it may be investments in stocks or bonds. To exemplify this, an organization makes a purchase of $5,000 of bonds. The company advances the money and is the owner of such bonds. However, the employees make weekly payments to the company, which payments are reimbursing the company for the outlay of cash for the purchase of such bonds. Whereas the company is the holder of the bonds, the employees, through their weekly payments, establish a lien on the bonds to the amount of their payments, thus creating an employees' equity in bonds.

In showing the asset of bonds or investments where employees may have an equity, the full amount of the invest-

ment should be stipulated, likewise specifying the amount of equity in such investments by employees with a final net amount of investment on which the employees have a lien. This method of employees' equity is very rare, but during the course of municipal or Federal requirements, where all citizens are requested to participate, such occasions may arise. Others may be where an organization is pursuing a policy of coöperative methods.

Fixed Assets.— All investments in property, regardless of its description, necessary for operation of an enterprise, without which properties operations are impossible, or if hired, would entail considerable extra cost for operations, are termed fixed assets. This does not include any part of the merchandise or commodity an enterprise deals in, in the course of buying and selling or of production and distribution, but includes only property maintained by the company for its own use. These fixed assets are subject to depreciation through usage, age or natural causes. To provide for depreciation of such assets, a reserve is created. Particular care must be exercised in not overvaluing this form of assets.

Buildings.— Investments in buildings in which an organization will conduct its affairs becomes a fixed asset of such an organization. Where the land as well as the building is owned by a company, the value of the land should be segregated from that of the value of the building and should be recorded upon books at the actual cost. The general period for the life of the building is estimated for accounting purposes to cover a period of twenty years, giving a depreciation rate of 5 per cent per annum. A reserve should be set up depreciating the value of such building, which depreciation is written off monthly and charged as a rental cost to the operating burden.

Buildings never increase in value. Any increase in value of property would refer to land and not to the build-

ing itself. Repairs to buildings required on account of usage or natural causes are a direct charge to an account designated as "MAINTENANCE AND REPAIRS" to show the up-keep of the building. But where such improvements are made on the property as additions to the building or bridges connecting buildings, it is an improvement to the property and an additional cost to such buildings. The fact that property has become more valuable in a community should not alter the building accounts. Each building should be known under a separate account. Any improvements should be applied to that particular parcel to which the improvements are applicable. A life period of 20 years is a conservative time for department store buildings, when it is considered that, on account of the hard usage to which they are put the life of manufacturing buildings is estimated for a period of five years, and seldom exceeds ten.

Insurance.— Placing of insurance on buildings should receive very close attention and at least once a month examination of conditions existing in insurance records is a necessity. Insurance premiums against conflagrations, like many other policies, improve with age. The older the structure, the greater the fire hazard, and the premium increase must follow. In the event of a conflagration, when a portion of the building or the entire building is damaged, it is optional with the insurance companies as to the manner of settlement. These are either to pay money, repair, rebuild, replace or adjust by sound value with co-insurance. The department store should at all times carry replacement value insurance, not only for buildings but for furniture, fixtures and equipment.

Fixtures and Furniture.— Fixtures and furniture are generally found to be built as part of the building, and the shelvings and counters become a part of the building itself. The furniture, show cases, and other movable fixtures, while under the hammer, are of very little residual

value. The life of the fixtures generally runs to a period of 10 years, of which 10 per cent of its value is written off yearly and charged to Operating Burden. Additional fixtures or furniture required should be charged to Operating Burden rather than be carried as a Fixed Asset upon the books of the company. The income tax laws do not permit this. However, it may be added to fixture account under the maximum of depreciation limit.

A reserve for depreciation may be set up so that at the expiration of ten years, when fixtures may be replenished, there will be a sufficient reserve for the installation of new fixtures and furniture.

Insurance to cover should at all times be on the replacement value. Many organizations, after having the value of the fixtures written off, will carry a fixed asset of furniture and fixtures at one dollar.

Delivery Equipment.— Perhaps no other business organization has the extensive carrying equipment of the department stores. The delivery becomes a very important factor since success of the store depends greatly upon service which it renders its patrons.

The delivery equipment may be of various descriptions. Formerly the horse and wagon and heavy truck were used extensively, and it was necessary for most stores to conduct their own stables, the up-keep of which was a direct charge to delivery expense. In the world of modernization, more rapid strides have been made in efficiency. A better service has been found by supplanting the horse and wagon delivery by the automobile.

The value of these automobile delivery cars and heavy trucks runs into large proportions. However, the usage to which they are put requires that depreciation does not exceed three years. A reserve for delivery equipment should be set up carefully, and its replacement by new trucks is chargeable to the reserve for delivery equipment.

This is a fixed asset and should appear as such on the balance sheet. A record of the complete delivery equipment should be kept so that a detailed statement for up-keep and results obtained by each automobile is readily obtainable. This is a necessity for statistics in the control of the store Burden, since an excessive cost for package delivery will require investigations and revisions in the Delivery Department.

Sinking Fund.— The purpose of a sinking fund may be described as providing for meeting obligations such as mortgages, bonded debts, retirement of preferred stocks. Funds of this nature have been set up for other purposes. Cash set aside for sinking fund must be received from profits. Investments of sinking fund result in additional profits which are applicable to the sinking fund. At the time that the sinking fund is applied for the object intended, any balance remaining must be credited to surplus account, or it may be declared as an additional dividend.

The sinking fund must always be an asset, set up in a class by itself. Should the fund be distributed to various investments, such investments should appear in detail on the balance sheet. A sinking fund of large proportions which has been invested extensively in securities, should be detailed on a supporting statement for the single item of sinking fund appearing on the balance sheet. Impersonal accounts should be kept in the general ledger under the caption of sinking fund operating accounts, in which will be found expenses detailed, income, discounts, commissions, trustees of the fund, in fact, any item pertaining to the sinking fund operations.

Should a company desire to set up a provision for a sinking fund, a distinction must immediately be made between depreciation and the intent of the sinking fund. Depreciation is a direct charge to profits, whereas, moneys set

aside for a sinking fund should be transferred after all operation charges have been determined and deducted from income. Otherwise, the charges to expense may be doubled. Where a reserve fund is provided to meet a bonded debt, such reserve may be set up by charging surplus account and crediting sinking fund reserve or reserve for redemption of bonds.

Where the reserve is not charged to surplus, but a sinking fund is established to meet a bonded indebtedness, such a fund may appear on the liability side of the balance sheet by showing the amount of bonded indebtedness less the sinking fund, which would be better termed "REDEMPTION FUND FOR BONDED DEBT."

Mortgages.— Mortgages as an investment should receive every legal attention that is required. The title of a property should be examined thoroughly and, wherever possible, a guarantee that the owner who receives the mortgage has a clear title should be guaranteed by responsible individuals or corporations. The mortgagor should at all times receive periodically all paid tax bills, such as water, land or any other bills placed against property by the city in which the property is located. The reason for this is that unpaid tax bills become a prior lien on the property and such prior lien takes precedent over a mortgage, whether that mortgage be first, second or third. In the case of any plumbing work or painting or any improvements made upon the property for which payment has not been made, the mechanics making such improvement on the property have the privilege of filing a lien against the building. Such property can be disposed of when selling the property under the hammer to satisfy the mortgage or other form of sale. But this lien, known as a mechanics' lien, must be satisfied before a clear title of ownership can be given. The filing of liens against the property or any improvement made on it are subject to the statute of

the municipality, and are sometimes governed by the state laws.

The variation of first, second or third mortgages implies that the first mortgage has a prior lien on the value of the property to the second mortgage, and the second mortgage has a prior lien to that of the third. This can be compared readily with first mortgage bonds or second mortgage bonds, and so on. In the event of two mortgages on a property and foreclosure procedure having been instituted to set judgment, the property having been placed under the hammer, all moneys received will be used to satisfy the first mortgage and legal disbursements. What is left will be given to second mortgagor, and so on down the line till all mortgages are satisfied and all cash obtained by auction has been absorbed. It can readily be seen from such circumstances that mortgages carried as an asset upon the books of a company should be mortgages that are absolutely clear from every lien, and that can be converted into cash without considerable legal procedure to satisfy any incumbrance upon the property for which the mortgage is held.

Machinery.— There does not seem to be any occasion for department stores having any fixed asset, such as machinery, since they are not manufacturing organizations. Still there may be certain classes of machinery necessary for the engine rooms. Conveyors in the delivery department may be operated from power generated by the company's own machinery. Such machinery takes on the same aspect as any other equivalent machinery used in manufacturing plants, excepting such as is used for the production of a commodity where the hour unit may be applicable. The life of a machine varies in accordance with its uses and its construction. It may be anything from two to five years.

A reserve should be set up making provision for replacement when such machinery becomes obsolete. The cost of

its up-keep is chargeable to that department of burden to which the machinery in use is applicable.

Land.— All investments made in land, whether or not an improvement has been made on it in the form of a structure, should appear at cost. The fact that land purchased and held for a particular period increases in value should not be sufficient reason to change the value as a fixed asset. For it is reasonably argued that, if land had been purchased at a specific price and held for a number of years, at the end of that time the amount sold for will give a handsome profit to the owner. Such profit is actually made when the land is sold. The mere fact that all surrounding land has enhanced in value is not sufficient reason to correct the cost of the land paid.

Where a number of properties are owned by an organization, it is advisable to allow for a separate ledger page account for each property, giving the cost paid for it and a full description of its location and the particulars appertaining to such land. In addition a separate record should be kept for each property held, upon which will be entered the various taxes paid for the up-keep of such land. Where improvements have been made upon the property, such as a structure, any taxes paid to the municipality are chargeable as a rental.

Deferred Assets.— Assets under this caption are closely allied to current assets. Though they are prepaid expenses for operating burden, it should not be interpreted that realizable cash will supplant these assets and revert itself to current assets. There may occur in the course of business an outlay of cash such that, while it is chargeable to burden prepaid, a default may revert to current assets. In such instances, all conditions surrounding the prepaid expenditures should be considered prior to enumerating such assets as deferred. Usually a deferred charge to burden covers a period of many months. Because of this, the

monthly writing down is resorted to for an equitable distribution.

Prepaid Advertising.— An item seldom appears as a deferred asset for prepaid advertising, but where a store issues a catalogue, which catalogue covers a period of several months, the prepaid cost for advertising will be carried as a deferred asset and the value of the catalogue will be written off monthly covering the life of such issue.

In mail order houses where a catalogue is issued to cover a period of six months, the entire cost of the catalogue will be carried as a prepaid asset. The value of the catalogue during the first month of its issue will be greater than the following five months. The second month of its issue will be greater than the next succeeding four months, and so on until the entire six months are absorbed. The last month's cost of advertising may be as low as only 3 per cent of the original cost of the catalogue, whereas the first month may be charged to Operating Burden as high as 35 per cent of its total cost of advertising.

The contracts made for advertising matter for programmes, posters, placards, traveling conveyances or other displays may be treated as a deferred asset and periodically charged off. Careful consideration must be given to an equitable diminution of such charges to operating burden under the caption of advertising cost, considering at all times that the advertising matter at the early stages of its issue or display is more valuable than at its latter period.

This logic is only applicable to the monthly writing off at the prepaid contract or prepaid outlay for advertising matter. A department store may have placards with its store advertising matter distributed in various outlying districts of the town in which it is situated. Usually there is a monthly charge for such placards where space is hired from a bill posting company. As these invoices are

paid monthly, it would be charged directly to advertising. Where the payment is paid for a year in advance, an equitable distribution must of necessity occur. Usually, such distribution may be 1/12th of its actual cost for the year, as the placards may be changed with such advertising matter as may be appropriate for the season of the year.

Prepaid Rents.— It is customary for all rents to be paid in advance. This may either be on the first of the month or during any part of the month. Where a payment is made during the month for the benefit of the monthly balance sheet, unexpired rent becomes a deferred asset and should be so stated upon the books of the company. Such deferred assets, however, must be reversed promptly after the balance sheet is drawn off. Rents, however, that are due the company from property or leaseholds owned by the company or from such tenants as may occupy departments, must not be treated as a deferred asset but as a current asset.

Sublet Departments.— There are many department stores or retail stores of any description who may sublet a portion of their store to outside persons, who will conduct a department, usually paying from 10 to 30 per cent of its sales as a rental. This, in the last decade, has become very common throughout the country. The departments generally sublet are Millinery, House furnishings, the Optical Department, Men's and Boys' clothing and Restaurants.

It must be confessed that where a department store sublets a department to an outsider, it is usually for the reason that the management was unable to conduct that department successfully. This, however, is not always the case. A store will sometimes sublet space for a department. Perhaps the store had never conducted such a department before or, for the want of sufficient capital, prefers to sublet a section of the premises to outsiders. The 10

to 30 per cent charges paid by the sublet department cover all stationery, light, heat, window display, cashier's and wrapping services, delivery services, in fact will cover all charges with the exception of advertising and clerk hire. The clerk hire here refers to direct selling help, and sometimes to delivery cost.

Prepaid Interest.—When notes have been discounted, for which the interest has been paid in advance, such interest should be carried as a Deferred Asset, and monthly written off to an account known as "interest paid up." Prepaid interest might not be for notes alone, but may apply to advances in either cash or merchandise. Where notes receivable have been discounted, the interest prepaid should appear under this caption, not forgetting that a liability is to be set up for the account, known as Accounts Receivable Discounted.

Prepaid Salaries.— There is not much to say about prepaid salaries. Very seldom are salaries paid in advance to any extent that makes it necessary to set up a deferred item. However, there are administrative salaries which may be paid several months in advance, depending upon circumstances. On such occasions the deferred asset should be set up with a periodic reduction until the entire prepaid salaries are charged to burden operation, and to whatever particular burden such advances in salaries are applicable.

Good Will.— As a tangible asset for a basis of credit good will has no value. On the balance sheet it will appear classified by itself. Good will in its relations to the department store receives its value, first, from the source of advertising; second, from the value of merchandise, and third, from the service which it renders its patrons. It is obvious that good will can only be established where good management is paramount. It can only be subordinated by the three elements necessary to make the store a home topic of reliability when personal requirements become neces-

sary. Not only are the elements thus far mentioned essential to create a good will, but every coworker must feel it incumbent upon himself at all times to further the interest of his store, whether in the premises or out. A going concern which has organized a store will not carry a good will account. A corporation enjoying the confidence of its community in order to further its own personal interests, may issue bonds or stocks or both and create a good will account, to be within the statute limitations. To do this, earnings should be of such proportions that a good will can be substantially supported by its past and present earning power and by a reasonable assurance for its future, which at best can have no guarantees. The entire transaction is open for criticism. A purchaser of the business may open a good will account for which good name of the store a premium has been paid. Such good will should be represented at actual cost, which has been computed from its earning power, after considering capital interest of both cash and personal services.

It may be that the new management is capable of continuing the good name of the store in the community and even enhancing its value, in which event good will may be carried as a temporary asset. Where the earning power decreases and even losses are taken, good will of necessity must diminish. It may be argued that a going concern whose good will account does not fluctuate by reasons of its excess of normal profits should permit the good will to remain at its cost as an asset on the balance sheet. It is doubtful whether any Board of Directors or owner of a department store, exercising good judgment and commercial requisites, would permit good will to remain longer than necessary. To eliminate good will, a secret reserve will be set up and periodically written off.

Judgments as an Asset.— It may seem unusual for such an account to appear on a balance sheet. If a judgment

is taken, it may either be for Accounts Receivable or perhaps for damages or for some claim terminated from legal procedure. If a judgment is for accounts receivable, accounts receivable should be reduced to the open account and the amount of the judgment received should appear as an asset upon the books of the company. Like the good will account, judgments are in a class by themselves. If a judgment is one that is collectable, it is worth while having such judgment appear as an asset for it is reasonable to argue that such judgment will be paid with interest at some future day. Where a judgment is secured for default of contract or damages or from any source whatever, such judgment held by the store should appear as an asset on the balance sheet. Its offsetting entry depends upon circumstances upon which the judgment was received.

Once a judgment has been rendered, every legal right for the judgment creditor to have such judgment appear on the balance sheet is within the scope of every logical reason. It may be that the judgment is under an appeal. Until a reversed decision has been rendered, the judgment should not be removed. The various states of the union give a certain life to each judgment, varying as much as twenty years. In some states, these may be renewed. However, before placing a judgment upon a balance sheet, all circumstances connected with it, with all prospects of eventually receiving payment, should be considered carefully.

Prepaid Insurance.—An account provided for payments of Insurance Premiums are either prepaid insurance premiums or insurance premiums paid up. A premium as designated here in relation to fire indemnifies the assured for the loss of property by fire, the premium being based on the fire hazard. It is customary to set up both aforementioned accounts in the general ledger, debiting prepaid insurance premiums with the payment of all insurance pre-

miums excepting life insurance, and by prorating, writing off the monthly expirations of premiums to the account of insurance paid up. Though it is admitted that a premium of $144 for one year is written off of the rate of $12 a month for each month of the year while the insurance is in force, a cancellation of the policy at the end of the first month will not give a credit for unexpired insurance for $132. Insurance companies will make their charge at the short term rate.

In the liquidation of a business, the balance sheet should show short term rates in the prepaid insurance account. It may be argued by accountants that unexpired insurance in a going concern is a current asset and not a deferred asset. It is admitted that a cancellation of all unexpired insurance can be converted into cash and that such prepaid insurance has a cash value, but a going concern would jeopardize its best interests not to carry insurance, nor could the credit world accept an insurance account as a current asset and determine its value as a credit risk. The insurance premium may be written off at once to the current month's operations, but to do so would burden the month that the insurance was paid and create an unequitable distribution in the accounting of burden. The deferred charges are set up for periodic charges to operations. The amounts of insurance carried vary with the inventory, though it is necessary for merchandising reasons to know the stock in trade daily in all departments. It should likewise receive careful attention to support loss settlements in adjusting a fire claim.

All premiums should be carried in the accounts herein mentioned covering fire, liability, theft, boiler, sprinkler, leakage, tornado, accident, automobile, etc. Automobile insurance is a direct charge to delivery expense, and in writing of expired premiums such premium should be credited to prepaid insurance and debited to delivery cost

under its insurance account. Likewise, with all other insurance, its distribution is applicable to that division of the store burden to which it refers.

Contracts.— In manufacturing organizations and construction concerns a contract may cover a period of years or run beyond the fiscal year. Stockholders or financial interests may demand a share of the profits from the work-in-process. An estimate of the profits accrued will be determined after ample provisions have been made for reserves. The amount of profits estimated will then be added to the uncompleted work to show the value of unfinished contract in inventory, work-in-process or unfinished stocks, as the circumstances warrant.

However, department stores do not come in for such transactions. They may enter into contracts for fittings and furnishings, chattels, apartments, floor coverings and furniture. These contracts are treated as sales. Other contracts entered into affecting the financial status of the store should have provision for reserve set up to meet any contingent liability.

Collateral.— Contracts entered into between a store and an individual partnership or corporation may require such parties to furnish collateral to secure the covenants of any agreement. This should not for a moment be interpreted as that, for any agreement, which a department store may make, collateral is necessary. It may also be required where charge accounts necessitate collateral to secure the open account. Such collateral may be in the form of stocks, bonds, cash or a certificate of deposit It may even be to the extent of an assignment, a chattel, or a mortgage on real estate, all depending upon the proportions the account will be permitted to attain.

The fact that a store becomes a custodian for such collateral does not give permission for the store to use such collateral in trade for any purpose. However, in the event

of a default of the agreement or an uncollectable account, the securities may be appropriated by the store. As long as the store holds such collateral, it must appear upon the assets of the company and should be offset by a like amount of liability to be known as COLLATERAL REDEMPTION LIABILITY. While the asset amount is equivalent to the liability, the true facts must appear on the balance sheet to offset any misapplication of the securities held in trust as collateral.

CHAPTER VII

BALANCE SHEET LIABILITIES

Current Liabilities.—Liabilities, termed Current, are Accounts Payable, regardless of their nature, and Notes Payable. In addition to these may be any liability for the payment of which a stipulated period is given, usually not exceeding the limits of one year. The accounts payable must be liquidated at an expiration period, generally under such terms of purchase as are customary in the trade. However, all current liabilities are such as must be paid for within trade terms obligated by the debtor. Long term obligations covering a period of years cannot be designated as Current Liabilities until maturity, liabilities of this kind being termed Fixed Liabilities. Where notes are given for borrowed moneys, or for merchandise purchases, or for other purposes, the listing of such obligations should be segregated on the balance sheet.

A corporation dealing extensively with notes should set up monthly a detailed statement of its entire notes payable account, chronologically arranged to support the balance sheet.

Accounts Payable Merchandise.—The department store's ledgers of accounts payable are probably more extensive than most business organizations, since its dealings are so varied. Also the number of creditors and new creditors is numerous and constantly increasing. How extensive this is is shown by the author's experience in the position of Comptroller with an organization. Payments were made every fortnight and the number of checks issued varied from three to four thousand. Though the smaller stores experience not a little difficulty in keeping a clear

record of their accounts, ordinary bookkeeping may not conceive any idea why difficulties should be experienced.

However, merely a purchase in a department store and a payment is not sufficient. All accounts must be followed up to ascertain whether the product of the creditor is a paying one to the store, or whether mark downs are necessary to make it move. If a creditor's merchandise is such that too many mark downs have been taken, the merchandise manager must be acquainted with the result so that this particular creditor will be eliminated. With a creditor of extensive liabilities, conditions surrounding the extensiveness may require investigation. Along with these, any number of reasons for investigation come up from time to time. Thus, special attention is given to Accounts Payable aside from the fact that a cash obligation is to be met. Merchandising, the prime factor of the store, receives its source from these accounts, and very often an inventory will be checked for authentic purposes.

The controlling account of the general ledger, which is also recognized as the Accounts Payable Account, should account for every invoice purchased. This may be checked back by a verification with the orders placed for merchandise and the expected volume to be received during the current month. The control of the outstanding orders for merchandise will assist in securing this information. The question of accounts payable resolves itself to the credit standing of the store. It is the equivalent of borrowing money in another form, thereby increasing the circulating capital. Notes given for the closing of an accounts payable account must be debited immediately to the account and credited to notes payable account.

Memorandum and Consignments.— Buyers are classified help particularly skilled in a specific class of merchandise which they purchase, whose sale they promote. The regrettable feature with the majority of buyers is that

though they may be good buyers they generally are found to be poor business men or business women. This is readily understood from the fact that they have devoted most of their time to obtaining an exceptional knowledge of merchandise. They have only occasionally picked up a bit of commercialism. Thus, we find the necessity in department stores for exceptional men to be skilled as general managers, merchandise men and accountants.

The buyers may make agreements with a manufacturer to ship the store an amount of merchandise on memorandum for a stipulated time. If the merchandise sells the invoice will be paid for. If part is sold, the balance is returned and the part kept is paid for. Though this does not seem to conform with trade carried on in other businesses, the fact remains that consignments of merchandise along these lines are a common occurrence.

The accounting to control situations of this kind must not be slighted. No loose records should be tolerated. Transactions of this sort should be treated as accounts payable, and added to the inventory at the prices invoiced. When the merchandise is returned, the regular charge back (or debit charge) — the term commonly applied for return merchandise — is applied in the same manner as to other stocks returned to manufacturers.

In addition to the aforementioned procedure, a record of all consignments or memorandum merchandise should be kept and known as "CONSIGNMENT ACCOUNTS PAYABLE." This record is for the office to follow up in determining the ultimate results and disposition of such stocks.

Miscellaneous Accounts Payable.— Under this caption may appear all accounts not referring to merchandise in which the store carries on in trade. All purchases for burden usage would come within its scope. Most organizations will draw a distinction between accounts payable for merchandise and miscellaneous accounts payable by two

separate records appearing as accounts payable merchandise and accounts payable expense. In the department store as well as in most businesses, good accounting will require this segregation. The burden register previously described will find its ledger accounts in the expense or burden payable ledger, which distribution, chargeable to operating burden, is departmentized.

There may be other accounts payable which spring up during business procedure that will not appear in the burden or merchandise payable ledger. Such accounts will then find their way from circumstances in the general ledger and must appear under that classification of liabilities to which they rightfully belong. This generally is current liabilities.

Notes Payable.— All borrowed money for which a note has been given, and notes given for any purpose which the company has promised to pay, become a liability and must appear as such on the balance sheet. Where notes are given to cover Accounts Payable, accounts payable should be reduced to the amount of the note and the notes payable increased. The interest increased thereon is not a part of either account, and should appear in the accrued interest account, which will be calculated monthly during the term of the notes to its maturity.

Short term notes may be issued by a store with or without collateral. Or the notes may be accepted by the public by virtue of the organization's good name or commercial rating. Sometimes underwriting makes this practice a costly one. Short term notes may be issued for three or six months. When maturity arrives they are paid for in cash or bonds or other securities issued by the maker of the notes. The larger department stores may resort to this method of financing their business, but it is a rare occurrence. Long term notes may, however, be issued, but this will be done in the form of bonds or debentures.

Collateral Notes.— Collateral Notes are those for which value received, the principal, and the interest are payable at a designated bank. At this bank the maker of the note has deposited a collateral security. At the option of the bank, such collateral can be converted into cash upon the non-payment of the note at maturity. The collateral on deposit with a bank may be changed from time to time, though only upon the consent of the bank, when such provision has been made at the time the collateral notes are issued.

The general custom of borrowing money on notes by department stores and most businesses is done to meet obligations at maturity in order to take advantage of discounts. Often foresight of a rising market on certain commodities may warrant borrowing money, where an organization finds itself temporarily short.

Accrued Liabilities.— All expenses that have accrued but are unpaid for should appear under Current Liabilities in setting up the balance sheet, whether the balance sheet is for the ending of the fiscal year or merely the regular monthly statement. These accruals, when formulated on the journal vouchers, should be reversed the following month, with the exception of Reserve for Taxes, buyers' premiums and interest. All other accruals should be considered carefully prior to reversing the entry. The store items that usually appear as accrued are salaries, commissions, buyers' premiums, interest, other expenses that may be governed by contracts and unpaid rent. Taxes should appear as an accrued liability. Reserve for taxes is discussed in the next caption. Accrued items set up for balance sheet purposes should appear as charges for operating burden on the profit and loss statement.

Reserve for Taxes (*as a current liability*).— All reserves are set up on the balance sheet after all the current liabilities have been determined. But there is a class of reserves,

better known as working reserves, not payable in the same category as current assets but generally in yearly periods, which assume an accrued liability daily. As it is customary to write up all accruals monthly, these reserves take on greater proportions as each month of the fiscal year progresses. The exact amount of taxes is not known, but from cash payments and current conditions an approximate amount can be determined.

The accrued taxes, properly termed reserve for taxes, though arguments contrary to this terminology have been offered, are logically a current liability not payable until bill is rendered. It may be argued that all reserves for taxes, whether municipal, state or federal, should be placed properly on the balance sheet under the caption of Reserves. When bill is rendered, relocate the reserve to current liabilities.

To offset this, it is reasonable to believe that the monthly portion of the tax should be a direct charge to current month's burden. If at the end of the fiscal year the tax should be greater than the provision allowed for taxes, then a reallocation would be in order. This would be difficult to perform, since all previous statements have been set up. If the tax bill rendered is greater than the reserve set up and the fiscal period has been closed, the excess tax over the provision made is a direct charge to surplus prior. That is, to the surplus determined for the fiscal year.

Some accrued liabilities may be analogous to reserves. But it must be understood that where a definite accrual can be determined, it must not be termed and treated as a reserve.

Acceptances.— Concerns who carry on trade in a class of merchandise usually sold by department stores, whether they be manufacturers or wholesalers, or even importers, do so on a credit basis. The capital employed by these concerns of their own investments is only sufficient to pay for

their plant and fixtures, with a small margin remaining of the investments or fixed assets, to pay for merchandise to begin business and pay a few weeks' salaries. The makers or wholesalers of a production must extend a credit line to the retailer, and the retailers will sell their purchases to the consumer, who will purchase for cash, by charge, or on the installment.

Thus, a complete cycle of credit is put in motion with the greater percentage of circulating capital as merchandise in trade. It becomes necessary for the manufacturer, jobber or wholesaler to extend to the retail trade a liberal extension of time, known as dating. In order that payment should be met at maturity or that a shorter dating should be extended, a liberal discount is inaugurated as an inducement to the trade to meet obligations at maturity or to anticipate the payment by allowing the legal rate of interest.

Such legal rates were regulated by the various states of the union as time progressed, until an international rate was recognized. The result of the liberal discounts is such that the merchant, in order to take advantage of liberal discounts, borrows funds from banks to meet his obligations. He will even anticipate obligations, thereby making an additional percentage of discount in order to cover the interest charged by the bank for the loan.

In foreign countries, especially European, the system of credit has been further extended in order that the borrowing of funds from banks may be made easy and at the same time permit the manufacturers and exporters to convert most of their circulating capital into cash. This system is known as ACCEPTANCES, which is another form of draft, replacing the promissory note. When the foreign merchant sells in his own country, a draft accompanies the shipment and the vendee, after examining the purchase, will stamp on the face of the draft his acceptance with his

signature. The vendor may or may not, according to his financial strength, present such acceptance to his bank, which will discount the draft upon the vendor's indorsement. Where the foreign merchants export merchandise to another merchant, the usual modus operandi is to attach the acceptance draft to the original bill of lading, together with consular invoice and other shipping documents. Upon the acceptance of the draft, which is signified by writing or stamping acceptances across the face of the draft, accompanied by signature, the shipping documents are relinquished to the importer or vendee.

The Federal Reserve Board has been urging American merchants to adopt this system of finance and the retailers have been encouraged to coöperate in its extensive use. Where acceptances have been given, it must appear under current liabilities under the caption of acceptances, segregated to show the amounts and its period, such as 30, 60, 90 days or 4, 5 or 6 months.

Though department stores will hardly receive acceptances, such acceptances should appear under current assets and accounts receivable (credited). Where acceptances have been discounted at a bank, an account should be set up to show acceptances discounted (debited) and the bank from which the money has been received should be credited for discounted acceptances. When the acceptance has been paid by the vendee, the journal voucher set up will be a credit to acceptances discounted, and a debit to the bank for discounted acceptances. The acceptance of a draft will show on its face the day payment will be made, the place and signature.

Bonded Debt.— In chapter five, bonds have been discussed briefly, sufficiently for comprehension of them in so far as a department store may be affected. The issue of bonds as it should appear on the books of the corporation is a liability showing the exact amount of indebtedness.

The ledger head line should give a brief description of why the bonds were issued and, if secured, their rate of interest, when and how it is payable. It may be argued that this information is not essential, but good accounting from every angle deems it advisable. The balance sheet should briefly state the wherefores of the bond and such other data as are necessary to support an intelligent statement. A company that has issued bonds need only record that amount that has been taken up. That is, if a board of directors authorizes a $300,000 bond issue and only $200,000 has been issued and paid for, the remaining $100,000, known as Treasury bonds or unissued bonds, will have no bearing whatever on the statement, nor will they effect the balance sheet until such time as they are issued and paid for. The balance sheet may have a foot note giving some detail as to the authorized issue, but the items under liabilities are the only items of any direct value.

Dr. Cash	————	
Cr. Bonded debt (1st mortgage)		————

The issue of bonds is generally accompanied by a premium or a discount, and commission or brokerage for floating the bond. To follow up the above mentioned issue, the par value being 100 was sold at 100½, amount sold being $200,000.

Dr. Cash	$201,000	
Cr. Bonded debt (description)		$200,000
Cr. Premium payable		$1,000

The premium of $1,000 may be considered as advanced interest, not as a profit. During the life of the bond, the $1,000 should be amortized, charged off and applied to accrued interest for bonded debt set up to meet the interest payment period. The accrued interest should be distributed equitably to operating burden.

Assuming that the $100,000 is the balance of the authorized issue sold at a discount, say of 99½, the entry would then be:

Dr.	Cash	$99,500	
Cr.	Discount for bonded debt	$500	
Cr.	Bonded debt		$100,000

The discount plus brokerage, if any, must logically follow as being an additional cost for the loan, and is considered as interest paid up for bonded indebtedness. It should receive the reverse consideration to that given to premium, by amortizing the discount over the life of the bond as a charge to operating burden. Long term bonded debt is a fixed liability. It should, however, be placed in current liabilities at least twelve months prior to its maturity.

Dividends Payable.— Profits that are determined after burden of every description has been deducted, may be termed net income or net earnings. It may be distributed as the Board of Directors may decide, according to its corporate rights. This may be in dividends, additions to surplus or working capital, store enlargements or branch stores; but generally the distribution and application of net profits depend upon the progressiveness of the merchants conducting the establishment.

Preferred stock generally bears cumulative dividends or non-cumulative dividends. Cumulative dividends are the dividends declared when profits are not sufficient to meet the terms of the stock and are carried over to the following year or succeeding years. They hold a priority in claim over other stocks in the payment of dividends. Non-cumulative dividends receive a priority each year, succeeding cumulative dividends. However, where dividends are not declared or are not sufficient to meet the terms of the stock, there is no obligation on the part of the corporation to support the deficiency in dividends for the non-cumulative stock.

In declaring dividends to be paid, the department store should carefully examine its balance sheet so that the working capital will not be impaired. It is not an unusual occurrence for a retail business to have earned during a current year considerable profits, but most often these profits will be represented largely in stock or fixed assets and there will be insufficient cash to pay the dividend. Or if the dividend is paid, the cash in banks and on hand will be reduced to the extent of making a bank overdraft and will force borrowing of funds for operations. The cash on hand which may appear on the balance sheet is worthy of more than passing consideration before a Board of Directors finally votes a dividend to be paid. If sufficient cash be available out of the company's funds to pay dividends, the necessary funds should be set aside.

The book entry follows:

Dr. Current surplus	———	
Cr. Dividends payable		———

Reserves.—Reserves may be either a legal requirement, depending upon the nature of the business organization, or good accounting in setting up the balance sheet to offset asset values for replacement, contingencies, or provision for losses that may occur in the future, which are chargeable to current profits. It may not be amiss to mention that a reserve account does not necessarily convey an impression that a specific sum of the organization earnings has been set aside to meet the specific object that the reserve account signifies. As previously mentioned, it is a charge against the current profits to provide for the future. Most prominent of all reserves are those for DEPRECIATION.

Reserve for Depreciation.—In manufacturing organizations, depreciation takes on considerable proportions in its relations to cost of production. Machinery in factories or foundries and their entire equipment are given an esti-

mated life, depending upon the commodity in production, which affects all equipment. A percentage of the entire cost is written off each year on a monthly basis. The amount written off, if for machinery, participates in setting up the machine rate cost and becomes a direct charge. In treating of building depreciation, all its elements must be taken into consideration in the same manner as occupancy is treated of in the profit and loss chapters, in order to set up a further cost to the machine rate for production. Thus, depreciation in its entirety is chargeable to production

This does not occur in retailing. Depreciation is charged to store burden and cannot be charged to additional cost of a commodity on sale. The market conditions and competition have a greater tendency in maintaining the mark ups than does the addition of burden to cost in order to obtain profit. To further the argument about why depreciation in the retail store cannot and must not be charged to cost of the commodity, a subject in merchandising must be given careful attention.

Adam Smith, one of the early writers of political economy, says:

"When the stocks of many rich merchants are turned into the same trade, their mutual competition naturally tends to lower its profits; and when there is a like increase of stocks in all the different trades carried on in the same society, the same competition must produce the same effect in them all."

It must obviously follow that a reserve set up for depreciation of fixtures, building or equipment, when charged to stocks, would eliminate a merchant in the present era from becoming a factor in competition. This is the case not alone with the merchant conducting a department store but also with the specialty shop, hotel, lace counter or even the street push-cart vendor.

The capital of a retail store must be likened to that of a manufacturing concern, especially in the inception of its business career. Where investments of store fixtures display matter, furniture and building improvements relate to factory plant and machinery, the capital is reduced by these fixed assets. A loss is immediately taken by the actual fact that, during the time that fixtures are being erected or show cases being installed, to resell the cases will cause a loss, even though the fixtures would probably be worth their value. Yet the fact that the fixtures are a necessity for the care of merchandise and pleasing to the eye and comforts of the customer, which comforts are paramount for retailing success necessitates the reduction of capital in fixed assets.

Depreciation results from decreased value, either by usage, obsolescence, or more often in the department store, and especially in the specialty shop, through constantly changing locations of departments. The term obsolescence referring to fixtures in the department store means the inadequacy of such fixtures as have become useless for the purpose for which they were intended. This is a very common occurrence which usually results from increased sales and changes in fixtures to meet the increased sales, the object of the change being the customer's comfort.

The life of fixtures for which large expenditures have been made when there are reasonable assurances that they will remain permanently in one place at least a few years, covers a period of from seven to ten years. If a ten year period is considered, a monthly charge to operating burden will be made of 1/120 of the original cost and a reserve set up for replacement.

The "Reserve for Depreciation" account should receive its debit entry when replacements are made or from realizations on scrapped fixtures. Repairs are chargeable to maintenance of store under such maintenance account

as may be carried by the store, several of such accounts being generally found in department store ledgers. The proper account, however, is "REPAIRS TO STORE FIXTURES." The various expenses supporting the account should be kept under separate ledger captions and accounts to support income tax schedules and management requirements. The same procedure applies to maintenance of buildings.

Notes Receivable Discounted.—There is not much to say of notes receivable discounted. This item appearing under liabilities is to signify that notes received either in payment of accounts receivable or for any transaction have been discounted by some bank or other person. Provision is thus set up for a contingent liability in the event that the note is not met at maturity by its makers.

The notes receivable account will be credited with cash received from the bank and the interest charged to prepaid interest, if such interest is deducted when the note is discounted. If the interest is payable at the maturity of the note, provision must be made for accrued interest.

The journal entry will be:

Dr. The maker of the note.
Cr. Notes receivable discounted.

The maker of the note becomes a contingent asset for the value of the note to offset the contingent liability of the discounted note. When the note has been met, this journal voucher is to be reversed, which closes the entire transaction.

Guarantees and indorsements must receive the same attention as notes receivable discounted and should appear on the balance sheet.

Judgments (as a liability).—The management of any organization will endeavor to obviate legal procedure whenever and wherever possible. But it sometimes happens

that a dispute over a purchase or over an accident is taken into court. Judgment may be given against the organization. If the judgment is for goods sold and delivered, the accounts payable should be debited and judgment credited. When an appeal is taken the judgment should appear along with interest accrued. Or a reserve should be set up to meet additional cost until the case is finally settled.

Where legal procedure has resulted from a contract, the circumstances of the contract should be construed carefully prior to setting up the debit. Most every concern will carry liability insurance and accident cases will then be referred to the insurance company. But where judgment exceeds the insurance liability, the payment of such judgment will become a charge to operations. In any event, the judgment until reversed or paid, must appear as a current liability.

Reserve for Bad Debts and Doubtful Accounts.— This caption receives its source from the credit department. This department in a retail establishment must exercise more care in the extension of credits than the wholesaler, manufacturer, jobber or importer. This statement may not meet with the approval of wholesale credit men. But it must be conceded when comparison is made between the extension of credit to an organization whose management is supported by capital and business qualifications, and extending credit to the woman whose occupation is that of house-wife, who has no business ability, or to women whose business qualifications are limited. Their resources are the support they receive from their earnings, parents or husband, who may or may not be financially well situated or rated in any of the commercial agencies.

The retail credit risk does not, however, take on the proportions of the risks of other organizations, since monthly settlements are required. Any lapse of time over the monthly settlement may impair the customer's credit standing and

will not be checked until the delinquent account has been paid up. With all the precautions surrounding the retail credit, accounts will run 30, 60 or 90 days past maturity. When the 90 day period has been reached, the danger period of collections has approached, unless the account is one whose financial and social standing in the community warrants the account to remain open 90 days or longer. The author's personal experience with the most exclusive Fifth Avenue, New York, specialty shops, tailors, dressmakers and milliners has been that accounts have been known to run from six months to two years before receiving settlement. In many instances, a lost patron was the result of requesting settlement. The mark up on the merchandise in such organizations is of such proportions that comparisons are entirely out of the question, and unusual credit risks are taken on charge accounts.

For example, during the year 1913 the author was ready-to-wear buyer for an Omaha store. On an eastern buying trip he met a former associate in a dress manufacturing house. It so happened that the former associate, now buying for a Fifth Avenue house of prominence, purchased the same style gown as the author. Whereas the Fifth Avenue house marked the $32.50 gown to retail at $85, the author's retail price was $52.50. Consideration must be given to the distance from New York to Omaha as well as the $20 mark up. The Omaha store sold for cash and the other to the exclusive trade on long credit. The danger of uncollectable accounts under these conditions, which exist in every community, not necessarily with exclusive trade, only warrants a provision for bad debts and uncollectable accounts. This provision is a direct charge to current operations. Though it appears on the balance sheet as a liability, under reserve for bad debts and doubtful accounts, some accountants prefer to deduct the reserve from accounts receivable under current assets. Any uncol-

lectable account on which a part or the whole account has been collected and previously written off, must receive its debit entry in the reserve account for bad debts and doubtful accounts.

In the last decade, numerous money lenders have made it a business to loan money to organizations which assign their accounts receivable. On these accounts an advance of 70 to 80 per cent is made, for the consideration of such assignment and other sound collateral, 6 per cent per annum is charged as interest and, to circumvent the law, a bonus or commission is paid that varies from ½ to 2 per cent per month. Stores whose charge accounts carry liberal time for payments, absorb considerably more than the capital will permit, and the hypothecation of accounts generally follows to keep the concern going.

The Federal Income Tax law allows for deductions "Debts due to the taxpayer actually ascertained to be worthless and charged off within the year." The object of setting up the reserve for bad debts and uncollectable accounts is to reflect the true condition of the organization's affairs. Most every organization can, from previous records, set up an estimate of probable losses on accounts receivable for their fiscal year. But only those actual worthless accounts for the fiscal year are permitted in the deduction from income.

Contingent Reserves.—Liabilities may either be current contingent, fixed or capital liabilities. In the discussion of contingent liabilities for ready comprehension, it may be said that though they are not an actual liability, they are a possible liability. As long as an organization places itself in a position where it may possibly become a debtor, provision must be set up on the books of the company to cover any contingency that may arise until this possibility has been removed or retired. The value of a balance sheet with all contingents having been provided

for will not only present the true condition of an organization, assuming that all other accounting principles have received every consideration, but also its basis for credit, whether for banking purposes or for obtaining commercial credit, and is worthy of greater appreciation.

Most usual amongst the contingent liabilities are notes receivable discounted, indorsements, guarantees, lawsuits, whether pending or on appeal, subleases and covenants in contracts. These may warrant the establishment of a contingent reserve. Contingent reserves are also established where insurance does not cover probable losses.

Redemption of Collateral.— In ordinary organizations this account may not appear. The department store will find it necessary to require collateral from some charge customer to support the extension of credit limits. The collateral which is held in trust until such time as all or part of it may be forfeited for uncollectable accounts, or until the account is withdrawn, will appear under collaterals on the balance sheet. Its offsetting liability will appear under redemption of collateral.

Reserve for Discounts.— In most retail and department stores where charge accounts are carried, the terms of payment are net, no discount, payable when bill is rendered on the 10th or 15th of the month. Discounts are given to purchasing agents. This makes it necessary to establish a reserve and, though it is treated as a liability, and may appear under reserve, some accountants will deduct the discount from the total accounts receivable under current assets. The discount may be better termed commissions. When paid at the time of settlement, it becomes an additional charge to selling burden. In setting up the reserve, its offsetting debit entry should be to selling commissions.

Reserve for Leakage.— Deterioration, as practically interpreted in accounting, relates to depreciation. An entirely different aspect is taken as applicable to department

stores. It does not, as is commonly understood, relate to shop-worn merchandise. There can be no deterioration on merchandise if sales promotion receives its full share of attention. Stocks must turn a given number of times a year. The turnover depends upon the class of merchandise. If stocks don't move, take a mark down and get it out. Make it move. Take your medicine with a smile.

No buyer of merchandise is infallible. They are but human. Since it is but "human to err," the merchandise manager or owner should not condemn the buyer, but should be thankful for an opportunity to advertise merchandise where the public may get something for nothing, metaphorically speaking. The author would further recommend that if such merchandise has been marked down so that it is hardly possible to mark the stock any lower, it should be given away to a charitable institution or to the poor, and thus add to the good will of the organization.

It is a deplorable condition that exists in retail establishments, especially in the larger department stores, that find it necessary to employ detectives for the detection of purloining individuals. It may be surprising to those unacquainted with department store conditions to know that from half of 1 per cent and as high as 2 per cent of the store's sales are unaccounted for. The condition of inventories may vary to this extent after all provision has been made for the proper control of merchandise.

Deterioration certainly does not signify theft. It is supplanted by the word leakage, yet reserve for leakage represents "unaccounted for stocks." Perhaps the application of a Latin term for the account may be more appropriate, such as *alis volat propriis*, meaning "*flies with its own wings.*" A store must determine its own leakage percentage and monthly apply the percentage against sales as the reserve chargeable against inventory. Differences in inventory verifications, unless other calculations are ac-

counted for, must adjust stocks carried in the various departments.

Capital.— On the balance sheet the caption of "capital" will represent the capital actually paid into the organization for its stock. If the capital is represented by preferred and common stock, the amount paid in for each should appear. Some balance sheets will show the total capital of stock of the corporation, less the stocks unissued, with the remainder representing the actual paid up stock, which will be considered as the organization's paid up capital. In department stores, and in fact in all retail establishments, the capital is furnished by those taking an active interest in the conduct of the corporation's affairs.

Where the corporation has reached such extensive proportions as to require outside capital, reorganization is sometimes resorted to, or bonds or debentures may be issued. Most often increased capital through change of incorporation takes place. The par value of the shares will be such as to be within the means of that class of the public the store desires to interest. Conversions into various securities may be offered by the store to retire such stock. Those who are well acquainted with this form of high financing will let such securities alone. The capital must appear to agree with the certificate of incorporation.

Surplus.— The surplus account here referred to must not be confused with its other interpretations. In the retail establishment, its interpretation is that of accumulated profits from operations. Defining profits, it refers to the earnings from operations in excess over cost, after all expenditures for operating burden, accruals, and contingencies have been deducted from such excess. Dividends can only be paid out of the net earnings of the company, and such dividends are a direct charge to surplus account.

The surplus of a company is sometimes diminished by writing off fixed assets. In the distribution of the store's

burden it sometimes creates a greater burden than the store actually absorbs. This is the means of creating a hidden store surplus, and at best should be discouraged.

Surplus Prior.— The term surplus prior refers to that surplus accrued during any period, prior to the current fiscal year's operations.

Current Surplus.— The balance sheet should show the detail of all capital, liability, segregating capital, paid-up surplus account and current surplus. The last mentioned refers to the surplus accrued during the current year's operations, and agrees with the current profit and loss account.

FIRM'S

COMPARATIVE BALANCE SHEET FOR OCTOBER, 1919, AND

	Resources			
	1919, October	1918, October	1919, September	Increase Decrease
Current Assets:				
Cash in bank				
Cashiers' balances				
Paymaster balances				
Office cash				
Service fund				
Drivers' working fund				
Total cash				
Inventory (mdse.)				
Accounts receivable				
C. O. D.'s outstanding				
Personal (accounts not represented in subsidiary ledgers)				
Total Current Assets				
Investments:				
Bonds				
Liberty bonds				
Stocks in other companies				
Real estate				
Interest in other companies				
Total Investments				
Fixed Assets:				
Buildings				
Furniture and fixtures				
Delivery equipment				
Manufacturing equipment				
Total Fixed Assets				
Deferred Assets:				
Inventory of supplies				
Prepaid Insurance				
Stocks and bonds held as collateral				
Prepaid rent				
Prepaid interest				
Postage				
Total Deferred Assets				
Judgments (Dr.)				
Good Will				
Total Resources				

NAME
NINE MONTHS OF THE FISCAL YEAR ENDING JANUARY 31, 1920

	Liabilities			
	1919, October	1918, October	1919, September	Increase Decrease
Current Liabilities:				
Accounts payable, mdse.	....	....	....	
Accounts payable, expense	....	....	....	
Notes payable	....	....	....	
Reserve for purchasing agents' discounts	....	....	....	
Reserve for Federal Tax (not deductible from Income Tax)	....	....	....	
Reserve for State Tax	....	....	....	
Reserve for Municipal Tax	....	....	....	
Reserve for interest	....	....	....	
Outstanding cash credits	....	....	....	
Accrued liabilities	....	....	....	
Reserve for buyers' bonuses	....	....	....	
Reserve for other bonuses	....	....	....	
Reserve for depreciation	....	....	....	
Reserve for depletion	....	....	....	
Total Current Liabilities	....	....	....	....
Reserves:				
*Reserve for leakage (chargeable to cost of mdse.)	....	....	....	
Reserve for contingent liability	....	....	....	
Reserve for bad debts	....	....	....	
Coworkers reserves	....	....	....	
Total Reserves	....	....	....	....
Collateral Redemption Liability	....	....	....	....
Deferred Credits	....	....	....	....
Judgments (Cr.)	....	....	....	....
Capital Liabilities:				
Capital stock	....	....	....	
Surplus prior	....	....	....	
Current surplus	....	....	....	
Total Capital Liabilities	....	....	....	....
Total Liabilities	....	....	....	....

* It is recommended that this reserve should not appear on the balance sheet. Its disposition should be monthly, by reducing the department's inventory to which it may relate.

NAME
NINE MONTHS OF THE FISCAL YEAR ENDING JANUARY 31, 1920

	Liabilities			
	1919, October	1918, October	1919, September	Increase Decrease
Current Liabilities:				
Accounts payable, mdse.	....	....	....	
Accounts payable, expense	....	....	....	
Notes payable	....	....	....	
Reserve for purchasing agents' discounts	....	....	....	
Reserve for Federal Tax (not deductible from Income Tax)	....	....	....	
Reserve for State Tax	....	....	....	
Reserve for Municipal Tax	....	....	....	
Reserve for interest	....	....	....	
Outstanding cash credits	....	....	....	
Accrued liabilities	....	....	....	
Reserve for buyers' bonuses	....	....	....	
Reserve for other bonuses	....	....	....	
Reserve for depreciation	....	....	....	
Reserve for depletion	....	....	....	
Total Current Liabilities	....	....	....	....
Reserves:				
*Reserve for leakage (chargeable to cost of mdse.)	....	....	....	
Reserve for contingent liability	....	....	....	
Reserve for bad debts	....	....	....	
Coworkers reserves	....	....	....	
Total Reserves	....	....	....	....
Collateral Redemption Liability	....	....	....	....
Deferred Credits	....	....	....	....
Judgments (Cr.)	....	....	....	....
Capital Liabilities:				
Capital stock	....	....	....	
Surplus prior	....	....	....	
Current surplus	....	....	....	
Total Capital Liabilities	....	....	....	....
Total Liabilities	....	....	....	....

* It is recommended that this reserve should not appear on the balance sheet. Its disposition should be monthly, by reducing the department's inventory to which it may relate.

Profit and Loss Statement for October, 1919, and Nine Months of the Fiscal Year Ending January 31, 1920

	1919 current	Per cent	1918 current	Per cent	1919 to date	Per cent	1918 to date	Per cent
Sales:								
Cash								
C. O. D								
Charges								
Total Gross Sales								
Less Returns and Credits:								
Cash								
C. O. D								
Charges								
Total Returns and Credits								
Net Sales								
Add:								
Sales other than departmental								
Total Net Sales								
Less:								
Inventory, beginning								
Purchases								
Inventory, ending								
Cost of Sales								
Gross Profits								
Less:								
Operating Burden:								
Administrative								
Buying								
Selling and sales force								
Purchasing agents' discounts								

Profit and Loss Statement for October, 1919, and Nine Months of the Fiscal Year Ending January 31, 1920

	1919 current	Per cent	1918 current	Per cent	1919 to date	Per cent	1918 to date	Per cent
Less:								
Operating Burden:								
Advertising								
P. M.'s and stock clerk's salary								
Occupancy								
Receiving								
Delivery								
Indirect								
Workrooms								
Total Operating Burden								
Net Mdse. Profit								
Add:								
Financial Income:								
Mdse. discount								
Miscellaneous discounts								
Required discount								
Over and short								
Interest paid up								
Total Financial Income								
Extraordinary Income								
Investment Income								
Less:								
Loss account								
Net Profit								

PROFIT AND LOSS STATEMENT FOR OCTOBER, 1919, AND NINE MONTHS OF THE FISCAL YEAR ENDING JANUARY 31, 1920

	1919 current	Per cent	1918 current	Per cent	1919 to date	Per cent	1918 to date	Per cent
ADMINISTRATIVE:								
Executive salary								
Supplies								
General office salary								
General office supplies								
Credit department salary and expense								
Legal expense								
Charity								
Special information and investigation								
Traveling expense								
Policy account								
Federal tax								
State tax								
Municipal tax								
Donations								
Educational Welfare								
Administrative membership								
Administrative subscriptions for periodicals								
Hospital fund								
Administrative gifts								
Correspondence department salary and expense								
TOTAL ADMINISTRATIVE								
BUYING:								
Department head salary								
New York traveling fare								
New York traveling expense								
New York rent								
Buying advertising								
TOTAL BUYING								

PROFIT AND LOSS STATEMENT FOR OCTOBER, 1919, AND NINE MONTHS OF THE FISCAL YEAR ENDING JANUARY 31, 1920

	1919 current	Per cent	1918 current	Per cent	1919 to date	Per cent	1918 to date	Per cent
SELLING:								
Salesforce salary								
Contingent salary								
Contingent stock boy and girl salary								
P M's salary								
Purchasing agents' discounts or commissions								
Floor directors								
TOTAL SELLING								
ADVERTISING:								
Sign writer's salary								
Advertising salary								
Advertising donations								
Window trimmer's salary								
Interior decorator's salary								
Miscellaneous advertising								
Newspaper advertising								
Advertising supplies								
Electrotypes, cuts, matrix								
Signs, posters and supplies								
Daily newspaper purchases								
Subscriptions and periodicals								
Advertising traveling expense								
Theatrical programs								
Campaign advertising								
TOTAL ADVERTISING								
OCCUPANCY:								
Direct rents								
Elevators, salary and expense								
Watchman service								
Porter's and maid's salary								
Porter's and maid's uniforms								
Porter's supplies								

PROFIT AND LOSS STATEMENT FOR OCTOBER, 1919, AND NINE MONTHS OF THE FISCAL YEAR ENDING JANUARY 31, 1920

	1919 current	Per cent	1918 current	Per cent	1919 to date	Per cent	1918 to date	Per cent
OCCUPANCY:								
Light								
Heat								
Maintenance of building								
Additional rent (building depreciation)								
Amortization of leaseholds								
Painter's supplies								
TOTAL OCCUPANCY								
RECEIVING:								
Freight and express, in								
Salary								
Supplies								
TOTAL RECEIVING								
DELIVERY:								
Freight and express								
Auto upkeep								
Wagon upkeep								
Salary								
Parcels post								
Parcels post insurance								
Carfares								
Special delivery								
Supplies								
Conveyor depreciation								
Uniforms for chauffeurs								
TOTAL DELIVERY								
INDIRECT:								
Help wanted advertising								
Telephones and telegrams								
Cashier's salary								
Inspectresses' salaries								

PROFIT AND LOSS STATEMENT FOR OCTOBER, 1919, AND NINE MONTHS OF THE FISCAL YEAR ENDING JANUARY 31, 1920

	1919 current	Per cent	1918 current	Per cent	1919 to date	Per cent	1918 to date	Per cent
INDIRECT:								
Complaint clerks' salaries								
Exchange clerks' salaries								
Will call salary								
General carpenter's salary								
General carpenter's expenses for materials								
Electricians, etc., salary								
Coworkers' bonuses								
Stationery and supplies								
Coworkers' welfare								
Coworkers' educational welfare								
Postage								
Suppers								
Carfares								
Holmes' messenger protection								
Paid-up insurance								
Outside auditors								
Maintenance of fixtures and machinery								
Subscriptions and periodicals								
Customer's service account								
Executive clerk's salary								
Superintendent clerk's salary								
Supplies								
Provision for contingent liability								
Watchman service								
Timekeepers								
TOTAL INDIRECT								
WORKROOMS:								
Millinery department supplies								
Millinery department salary								
Alteration salary								
Alteration supplies								
TOTAL WORKROOMS								
TOTAL OPERATING BURDEN								

CHAPTER VIII

TURNOVER

The importance of a Profit and Loss Statement in the department store takes on greater proportions than in any other business. Not that it is less important for any other organization to know its trading conditions, but that the department store is made up of many different stores, each one conducted as if it were a single unit, with a final result of their all being merged into one. To neglect any one unit may possibly absorb profits accumulated in other departments. The merchandising problems are such that the most minute detail must receive constant consideration and planning.

Prior to going into the subject of Profit and Loss from an accounting problem, the source as to what constitutes a profit in a department store becomes an economic subject.

Capital.— The capital invested in an enterprise is merely a part of the capital in use. The important fact must not be overlooked that the moment capital is invested in an enterprise, such capital is almost immediately reduced by fixed assets being taken out of the capital. The remaining capital must be prepared to meet contingent liabilities, such as salaries and rentals, for which credit limits are not given. The balance of the capital is to be used in trade. The credit privileges given to the store by manufacturers, wholesalers, importers or jobbers become the circulating capital of the business in the form of merchandise in addition to unfixed capital. Economics teaches us of capital. The whole capital of the undertaker of every work is necessarily divided between his fixed and his circulating capital. While the whole capital remains the same,

the smaller the one part the greater must necessarily be the other. It is the circulating capital which furnishes the materials and wages for labor and puts industry into motion.

It should be remembered that CIRCULATING CAPITAL PUTS INDUSTRY INTO MOTION. The circulating capital of the department store, specialty shop or retail store, must necessarily be its stock on hand, plus labor. The greater the circulation of the various stocks the better the production, distribution and full complement of the establishment. The profits of capital seen through the theories of economics in production and distribution lie in stock turning.

This does not necessarily mean that in the case of an organization beginning with a capital of $100,000, of which amount $40,000 becomes a fixed asset, the $60,000 remaining is the circulating capital. It might be interpreted as such from a dollars and cents point of view, but economic features are such that the $60,000 remaining from the investment of the capital plus such capital granted the organization as credit in the form of merchandise, takes on an aspect of additional circulating capital.

Considerable has been said and written of stock turnovers, whether they refer to ready-to-wear goods or to house furnishings, jewelry, or any other class of merchandise carried on for trade in a department store. The conclusion invariably is that its stocks should turn a given number of times. But in devising a means to do it without making excuses for failure to accomplish the desired results, merchants and buyers are apparently prone to discuss the difficulty of the subject.

Were the author to terminate this discussion in its beginning it would be sufficient to state merely that the maximum propagation of turnovers can be obtained by the application of social science and economics. The vastness of these studies in its various stages analyzes the subject from every angle.

Old Merchandising Methods.— The merchants of a few generations ago were wont to come to the market and make their purchases for six months or a year. Their mark up was not intended for small profits and volume, but rather for a substantial profit along conservative lines. Then again there was the old-timer whose capital, regardless of its amount, affixed thereto 6 per cent interest at the end of each fiscal year. Using the vernacular, he jollied himself into believing he had a larger capital at the end of each year, whether his business earned the interest or not.

Modern accounting, however, has enlightened the merchant so that it is now known to all that profits are only accumulated by the quick turnover of stocks. To make greater profits, progressive merchants realize that this can only be accomplished by " buying little " but often. Do not be misled into believing that every time the buyer goes to the market to buy he has turned over his stocks. It appears a jest even to make mention of this ridiculous idea.

How Turnover is Ascertained.— There is but one method of ascertaining this information, and such information must be known daily or weekly to the merchant and buyer to secure the desired result. The average weekly stock on hand at a given number of times into the year's sales signifies the number of turnovers for the year. The average stock on hand either for the week or month should be used as a divisor. The sales for the period to be figured are to be the dividend and the quotient will be the turnover.

Assuming that the amount of stock on hand is $50,000, it is to be determined how long a period it will take for such stock to turn. The $50,000 will be divided by the sales for the week and the quotient will be the number of weeks it will take for such stock to be sold out. In merchandising, the method of figuring is to determine the number of times merchandise is turning per annum, or the

length of time it will take for certain stocks to turn completely. Merchandising is the prime factor, one that absorbs constant attention with an extensive merchandising organization employed to control the situation.

The old-time management had very little or no competition. Stores were all placarded with the "General Merchandise" sign. Within, stocks were under cover, with very little display and only a few price signs here and there. The clerk was always pleasant and knew every one in town. With the coming of the present day, the population increased in every town and the influx of immigration was great, forming a populace that is the American in the making. With this formation, the foreign and the American knowledge of merchandise that the customer possesses, along with competition and new department stores and specialty shops constantly organizing, merchandising has developed into a modern science. It is, therefore, necessary to make scientific methods applicable in the successful management of all departments to attain profits. Profits again revert us to the problems of turnover of stocks.

In analyzing a commercial enterprise, the analyst is confronted with many vital points that require experts and men of long and varied experience who conduct successfully and control the various departments.

There is the statistician who, in conjunction with the efficient manager, endeavors to hold the overhead down to normal. Then there is the buying organization, which devotes its time to buying and promoting the sales; again there is the cost of production, and any number of other elements. In fact, every department has a function to perform with an objective of doing it better every day. But of all the vital points of a business, be it mining or manufacturing or the department store, distribution precedes everything else in perfect management and profit making. If your overhead is high, a greater distribution

will reduce it. Distribution is sometimes supplanted for the word "stock turnovers." To accomplish any particular objective in the department store, from a managerial or profit-making point of view, the accomplishment of that objective leads to distribution, and a greater distribution means the increase of sales.

The buyer must acknowledge the logical argument that the distribution of his various stocks holds him in control, like the suspended sword of Damocles. His stock must turn a given number of times to make good, or some one else will make them do it. And it should be not merely a quick turn of stocks, but a profitable turn.

In acknowledging the importance of distribution, the merchant and buyer are confronted with the problem of how to accomplish the desired result. It therefore behooves the merchandise manager to plan sales promotion campaigns with the coöperation of department heads and strenuously to execute well defined plans.

Lest it be overlooked, it may be opportune to mention that newspaper advertising or advertising by pamphlets or otherwise does not imply sales promotion, and that this is only a part of the theme for operation.

Advertising is departmentized and known as the publicity department. Its objective is to bring the people into the establishment. Publicity does not close the sale across the counter.

Merchandise Manager.— Centralizing the merchandising power, both purchases and sales, its beginning and result radiate from the merchandising office. This office does not merely pass upon the placing of orders, and invoices, or offer a suggestion to the buyer that a specific class of merchandise can be purchased from a different manufacturer or wholesaler with a better discount. The absolute control of stocks in every department must be known here every day. Knowledge of one's business is its great-

est factor. The larger the volume, the greater its importance.

The banker can only pay his overhead expenses and declare dividends by the daily turnover of cash on hand. The same problem confronts the merchandise manager. To exemplify further turnover and profits as being synonymous, reference is made to the fruit or vegetable vendor. His stock must turn daily or it becomes unsalable. His stock must sell, and sell quickly, for therein lay his profits. Adopt the fruit vendor's method, make it applicable to the million dollar business, prevent the very often unnecessary mark down, and hold on to the gross profits as long as possible. Mark downs cannot be eliminated, but they can oftentimes be prevented.

The merchandise manager may lend every assistance to the buyer in his purchase and department management, including distribution, but it falls to the lot of the buyer to see how well his selling force can close their sales. This makes it necessary for buyers to be on the floor of their departments and not be cooped up in offices or permanently seated at desks.

Thus every auxiliary of the department store has its central station at the merchandise manager's office, who, in turn, must have his work so systematized as to control the most minute detail.

It is essential that the sales clerk's selling ability should be developed and tutored to the extent that their salesmanship becomes an asset to the establishment in the accomplishment of the required turnover. Stores have established schools, employed instructors, and put in use almost every modern device to educate their selling staff in perfect salesmanship.

Salesmanship.— What constitutes salesmanship? The subject is indeed quite an extensive one, yet it must not be overlooked that salesmanship is but a modifier of stock

turnover. The sales person who wishes to be termed properly a salesman must have the necessary qualities for making the prospective buyer think as he thinks, be of the same mind as he is and as enthusiastic. The selling requisites are divided in the following classes:

Advertising.
Health.
Honesty.
Initiative.
Knowledge of merchandise handled.
Sincerity.
Enthusiasm.
Determination.

Advertising.— A teacher of merchandise and a creator of desire is the publicity man. The advertising man in a store must of necessity be a salesman of extraordinary qualifications. He not only teaches and sells to the entire society in which the store is located, but also he must create desire in the public so that it is as enthusiastic as himself, in order to bring them into the store. He must convey convincingly to the minds of the public the whys and wherefores, with an easy understanding of what his store represents in service, in merchandise, and in policy. Advertising is the initial source creator of good will. It sells to all and is substantiated by the individual sales person when the public enters the store. A store cannot advertise to-day, say what their policy and merchandise consists of and then stop for an indefinite period. It is the persistency of publicity which keeps before the public's mind the store and its full complement. But the persistency of subjects must not be overdone. Not alone must a store educate its own selling help — because they don't come readymade salesmen — but also the public must be educated and persistently educated so that its mind will

be open at all times to think as the store thinks. The author does not undertake to tell the publicity man his business, but merely makes mention of the requisites necessary in assisting to accomplish the necessary turnover of stocks.

Health.— In engaging the woman or man as a salesman, it must be remembered that the store is engaging a person who is going to represent the store, the owners, and their good name. Human nature, and character, are picturized in the physiognomy. The mouth, the eyes, the ears, the forehead, all immediately convey the character of the person who is being considered as a coworker and representative of the store. Having determined upon the characteristics of the person as a successful applicant, the question of good health is a necessity. Where the body is healthy, the mind will be supported in a like manner. The medical science may disagree on the technique of this statement, but commercially the diagnosis is not far from correct. The healthy mind, free from bad habits, clean in thought, must be one that, if not already alert and quick to think, is more easily trained than the one otherwise. A healthy mind and body become a requisite for good salesmanship.

Honesty.— The author does not refer to the weak-minded individual who would purloin what belongs to another. Reference is made to honesty with one's self, where the depths of the heart are interested in one's actions, truth to oneself in thought, action, speech and knowledge. To succeed not only as a salesman, but in business in its entirety, honesty is like a halo crowning the word success. To sell a customer a piece of merchandise by conveying a wrong thought in order to effect a sale is dishonest and is not making a permanent customer. The honest thought in back of sales must be such that not only will the customer be pleased with the purchase but

that he will also think highly of the honesty of every statement, of every claim, in substance, by which it is supported; so much so that the customer will become a permanent asset to the store. Again, we have a creator of good will, and a means of accomplishing the necessary turnover.

Initiative.— The difference between all mortals lies in their brain power. Some brains are more developed than others. Yet the ability to develop our brain power lies within our own desire, our own ambition of what we care to be — whether we shall be satisfied with what brain power we possess, or whether our craving for knowledge or ambition leads us to attainment such that the fruits of our brain power may recompense us by making possible for us the way in which we care to live. That person who has to be told what to do, how to do, whether it be once or a dozen times, possesses no initiative. The person that possesses initiative is the one who knows what to do, how to do it, and does it. It is the person who is faced with a problem, it may be critical or one never presented before in his experience, and who takes the initiative to do or die, that makes success. To overcome obstacles such as these and come out a winner helps in the making of good salesmanship. This does not only apply to salesmanship, but to all business men who are confronted with problems. It is the fellow with plenty of initiative that comes up smiling all the time. Knock him down as much as you like, he will always come up, and come up strong.

Knowledge of Merchandise.— The merchandise placed in a department to be distributed to the consumer falls to the lot of the buyer. Where to get the merchandise, how to get it, how to buy it, the reasons for its purchase, are problems that come within the scope of the buyer. The author will not undertake to tell the buyer the details of this subject, for buying is a subject in itself, on which every buyer has his own opinion and does things to the best

of his knowledge and ability. It is assumed, however, when a buyer makes a purchase and merchandise is delivered to his department, that he has made the best purchase possible.

It should be incumbent upon the buyer to educate his sales people in his department in the various changes of style, material, workmanship, names of materials, their composition and general construction, regardless of what the merchandise may be that is carried in a particular department. The sales person should study intensively the merchandise carried on for trade in the department in which he or she may be employed. Knowledge is power. This is an old saying, but a true one. When the sales person has at his command a well fortified knowledge of the merchandise, convincing power is more readily transmitted to the open mind of the prospective buyer. Then all questions put to the sales person receive not only a ready answer, but a convincing one, supported only by honest statements. It is one of the prime factors that go with good salesmenship. The greater the knowledge of merchandize the sales person possesses the greater must be the proportions of the turnover.

Sincerity.— Sincerity does not imply flattery, nor can it be so interpreted. Many standard authors of fiction have written that no one is so little vain that he does not like flattery now and then. But flattery in a department store, while sales persons may get away with it once in a while, will ultimately result in the loss of a customer. Convey all thoughts sincerely, let the expression of your eye, of your face, of your mouth, show the sincerity of every word which you wish the prospective customer to believe. Friendship can only be created and held by sincerity. Insincere thought creates transmission of negative thought. No matter how you may try to adjust the features of your face to convey that you are sincere,

only a born artist in the art of contorting the face can succeed at this.

Sincerity, if it is supported by any argument of power that will induce the purchase of merchandise, not only creates confidence in the buyer, but is the means of creating a friend. Friendship, in the retail business, results in a personal following to the sales person. This is a great asset, not alone to the sales person, but to the employer as well.

Enthusiasm.— All the necessary requisites for salesmanship heretofore mentioned are necessary to support enthusiasm. There can be no enthusiasm where love of labor does not exist. Interest in work must be displayed in every move and every action. The greater the interest in the undertaking, the greater the flow of enthusiasm. The open mind of the customer will readily take on the same enthusiasm as that displayed by the sales person. This should not be interpreted as meaning that the sales person should overdo her enthusiasm to the extent of raving over the article offered to the customer. But there should be sufficient enthusiasm to create the desire for the article.

Sales persons are known occasionally to get into a rut. Enthusiasm becomes lacking, ambition seems to cease. This is generally brought about more by personal affairs than by daily business transactions. If a sales person executes her duties sincerely, the merchandise in the department will be moving so rapidly that there will be new merchandise coming in so fast that sufficient food for enthusiasm is constantly replenished.

Keep to ethics. Do not tell a prospective purchaser how bad a competitor's merchandise is. On the contrary, tell the good qualities and demonstrate why your own merchandise is so far superior that it would be to the customer's advantage to purchase from you. Never mention

a competitor's name unless you are approached on the subject by a customer. Then politely and courteously bring your customer back to the subject of purchase, eliminating discussion of the competitor.

Determination.— Perhaps the term " determination " applied here may be analogous to what has been written previously. To be successful in any undertaking, ambition must be created. The proportions to which success must be attained will be the sincerity of ambition. Where sincerity becomes very prominent it takes on an aspect of determination. When ambition has been aroused and this ambition is supported by a real heart-felt sincerity, brain power becomes of a determined type. Such determination cannot be satisfied until the objective has been accomplished. A person may be honest with himself, may have plenty of initiative, may have extraordinary merchandise knowledge, be sincere in every undertaking, even enthusiastic at times, but unless all this is supported by a determined mind to reach the goal of success, that success will never be accomplished and the man will end in dismal failure.

Determination is a very fair representative of a person's will power, the power of thinking, and execution. After all is said and done, whether it is in salesmanship or any other branch of commercial work, the one who is a " doer " is the class of help wanted and requisite to the success of organizations.

TURNOVER FOR YEAR 1918

A Department Store in Texas

Art Goods	8
Beauty parlors and hair goods	5¼
Bargain basement (all stock)	4¾
Books	5
Boys' clothing	3¼
Café	19
China and glassware	1 4/5
Cigars	20
Corsets	4
Candy	5½
Draperies	2 3/5
Fountain	174
Furniture	3 2-5
Furs	11 3/10
Hoover sweeper	9
House furnishings	4
Infant's wear	5½
Jewelry	3 9/10
Kimonos and house dresses	3½
Kodaks	9
Ladies' gloves	1¾
Ladies' suits	16
Ladies' waists	31
Ladies' hose	3 3/5
Ladies' knit underwear	3½
Ladies' handkerchiefs	4 1/10
Ladies' coats skirts	10
Ladies' sweaters	25
Ladies' dresses	11 1/10
Laces	1¾
Leather purses	8
Men's clothing	2 8/10
Men's hats	5
Men's furnishings	3
Misses' suits and dresses	11 2/5
Millinery	10½
Muslin underwear	6
Notions	5
Patterns	3¼
Pianos	1¼
Picture frames	2 3/10
Ribbons	1¾
Rugs and carpets	4¾
Shoes—Boys'	3
Shoes—Ladies'	3
Shoes—Men's	2½
Shoes—Misses' and children's	2
Sewing machines	2 2/5
Silks and velvets	2 9/10
Stationery	4½

A DEPARTMENT STORE IN TEXAS—*Continued*

Silverware	1½
Trunks and Bags	4¼
Trimmings	2
Toilet sundries	2 7/10
Toys	5
Umbrellas and Parasols	3 3/10
Victrolas	13
Victor records	5
Wash goods and blankets	5¼
White goods and linens	4
Woolens and dress goods	2 1/10
TOTAL HOUSE TURNOVER	4½

TURNOVER FOR YEAR 1918

A DEPARTMENT STORE IN OHIO

Art	1 7/10
Bedding	2 9/10
Books	2 4/10
Boys' clothing	2 9/10
China and cut glass	1
Corsets	2 4/10
Dress goods	1½
Domestics	2 6/10
Furs	1 7/10
Gloves	1 9/10
Groceries	2 4/10
House furnishings	1 6/10
Hosiery	3 9/10
Handkerchiefs	2 35/100
Infant's wear	2
Jewelry	1 45/100
Junior and children's	3 42/100
Knit underwear, ladies'	2 56/100
Ladies' neckwear	2 8/10
Ladies' suits	4¾
Ladies' coats	4 37/100
Ladies' skirts	4 21/100
Ladies' dresses	3 67/100
Laces and embroideries	1 6/10
Linings	2
Leather goods	3
Luggage	2
Men's hats	1 34/100
Men's furnishings	2 26/100
Men's clothing	2 58/100
Millinery	5
Muslin underwear	2
Notions	2

A DEPARTMENT STORE IN OHIO—*Continued*

Patterns	2
Petticoats and house dresses	3 36/100
Ribbons	1 38/100
Rugs and draperies	1 29/100
Shoes	2 29/100
Silverware	1 33/100
Silks	1 7/10
Sewing machines	2 28/100
Stationery	1 45/100
Teas and Coffees	8 45/100
Toilet goods	4
Toys	2 50/100
White goods and linens	1 9/10
Umbrellas	2 21/100
Waists and kimonos	3 17/100
Wall paper and decorating	1 89/100
Downstairs ready to wear	4 93/100
Downstairs millinery	4 1/5
Downstairs shoes	2 29/100
ALL STOCKS	2 24/100

TURNOVER FOR YEAR 1918

A SPECIALTY STORE IN PENNSYLVANIA, BUSINESS APPROXIMATELY $4,500,000.

Children's dresses	6 5/10
Gloves	2¼
Furs	3 9/10
Hosiery	3½
Infant's wear	4 1/6
Junior coats	5 5/10
Kimonos and silk underwear	4
Ladies' coats	7 6/10
Ladies' dresses	10
Ladies' skirts	7 6/10
Ladies' suits	9
Ladies' waists	9
Millinery	21 6/10
Petticoats	6 9/10
Basement coats	8 1/6
Basement dresses	11 6/10
Basement suits	12 9/10
ALL STOCKS TURNOVER	7 1/5 times

TURNOVER FOR YEAR 1917

A Department Store in London, England

The Turnover Under American Methods For All Stocks

Upstairs departments............... $4\frac{3}{4}$
Downstairs departments average...... $4\frac{3}{4}$ to 17
Stocks both upstairs and downstairs... 9

The turnover in England is spoken of as Trade or Sales

It will be interesting to know that the cost of advertising this volume of business stands about $1\frac{3}{4}$ per cent to 2 per cent. The total burden for the whole business was in the neighborhood of 17 to 18 per cent.

DEPARTMENTS	DOLLARS	PER CENT OF TOTAL BUSINESS
Silks	567,530	2.8
Velvets		
Colored dress goods		
Black dress goods	507,465	2.5
Flannels		
Plain cottons		
Fancy cottons	299,995	1.5
Paper patterns		
Linings	20,015	.1
Household linen, towels		
Blankets		
Down quilts and bed spreads	330,110	1.6
Fancy and bed linens		
Tunics, real laces		
Cut laces	139,850	.7
Embroideries		
Veilings	42,500	.2
Lace neckwear		
Silk neckwear and scarves	114,995	.5
Ribbons	140,120	.7
Men's hankerchiefs		
Ladies' handkerchiefs	250,435	1.2
Men's gloves		
Ladies' leather goods		
Ladies' fabric gloves	289,445	1.4
Children's gloves		
Knitted coats		
Shawls and scarves	202,555	1
Ladies' cotton, wool and		
Fibre hose		
Ladies' silk hose	565,140	2.8
Children's hosiery		
Ho-less hose		

DEPARTMENTS	DOLLARS	PER CENT OF TOTAL BUSINESS
Cotton and wool woven underwear		
Ladies' woven knickers		
Silk woven underwear	367,300	1.18
Children's woven underwear		
Haberdashery		
Hair combs		
Trimmings and belts	444,990	2.2
Buttons		
Sunshades, Sticks		
Umbrellas	162,560	.8
Ladies' nightgowns and pajamas		
Muslin underwear	252,575	1.3
Children's underlinens		
Overalls—Ladies' and children's		
Nurse outfitting and aprons	202,610	1
Infants' millinery		
Infants' indoor garments	152,360	.8
Infants' outdoor garments		
Petticoats	124,390	.6
Bathing dresses		
Layettes	72,825	.4
Corsets		
Mantles up to 84s	130,110	.6
Mantles over 84s	457,065	2.3
Costumes and gowns		
Special order		
Workrooms		
Raincoats		
Gowns up to 84s	1,040,310	5.2
Gowns over 84s		
Coats and skirts over 84s		
Workroom stock		
Skirts		
Girls' coats and skirts		
Girls' coats	190,115	.9
Girls' dresses		
Blouses		
Blouses O. S.	814,725	4
Blouses, robes		
Tea gowns, negligees	142,660	.7
Muffs, stoles, etc.		
Fur coats		
Feather boas	552,530	2.6
Storage		
Trimmed millinery		
Girls' millinery		
Untrimmed, millinery, flowers,	790,005	3.9
Feathers		

DEPARTMENTS	DOLLARS	PER CENT OF TOTAL BUSINESS
Men's suits		
Men's overcoats	377,465	1.9
Dress clothes, dressing gowns		
Men's bespoke clothing		
Bespoke workrooms stock	47,545	.2
Motor clothing		
Motor cars	145,100	.7
Motor bicycles		
Juvenile clothing (over 7 years)		
Little boys' clothing under 7 years	255,210	1.3
Boys' outfitting		
Cycles and cycle accessories	102,365	.5
Motor accessories		
Men's outfitting		
Flannel shirts and pajamas		
Men's underwear	387,490	1.9
Men's socks		
Men's hats and caps	37,485	.2
Men's boots and shoes	114,970	.6
Ladies' shoes over 20s		
Ladies' shoes up to 20s	462,480	2.3
Children's boots and shoes		
Clocks		
Jewelry	242,555	1.2
Fancy jewelry		
Elector plate and silverware	155,135	.8
Fancy leather goods, purses, etc		
Bags, leather and silk	199,895	1
Cutlery	122,505	.6
Optical goods	42,440	.2
Photographic goods		
Stationery		
Table decorations	299,875	1.5
Art materials		
Books		
Maps, atlases	152,560	.8
Post cards		
Art needlework		
Needlework accessories	215,020	1
Lamp shades	30,015	.1
China		
Glass	182,485	.9
Fancy china and oriental		
Electrical and lighting	52,490	.3
Hardware		
Turnery, brushes and baskets	267,400	1.3
Fancy ironmongery		

DEPARTMENTS	DOLLARS	PER CENT OF TOTAL BUSINESS
Lace curtains		
Soft furnishings	110,100	.5
Gramophones and records		
Pianos	327,395	1.6
Sheet music		
Toys, games, dolls, p'rams	165,100	.8
Sports, flags	69,960	.3
Trunks		
Bags and suit cases	147,605	.7
Perfumes and toilet preparations		
Toilet brushes		
Drugs, toilet articles	684,895	3.4
Drugs, workroom stock, surgical appliances		
Hair goods, hairdressing	125,320	.6
Natural flowers		
Confectionery	437,520	2.2
Confectionery workroom stock		
Soda fountain	139,985	.7
Luncheon hall	420,005	2.1
Zoölogical	12,495	
Millinery (extension)		
Blouses (extension)		
Tobacco and cigars	330,055	1.6
Coal	107,365	.5
Men's hairdressing	32,505	.1
Grocery	1,370,325	6.8
Provision (cheese, bacon, butter)	585,160	2.9
Meat	479,535	
Fish		
Poultry	267,525	1.3
Fruits and vegetables	232,420	1.1
Flowers	67,310	.3
Bakery and pastries		
Cooked meats	450,105	2.2
Wines and liquors		
Beers and minerals	182,605	.9
Quick lunch buffet	52,505	.2
Total business was	20,157,770	

THE ANNUAL TURNOVER FOR DEPARTMENT STORES

DEPARTMENTS	YEARLY TURNOVER
Art goods and needlewokr	2½
Blouses and waists (ladies)	9
Boy's clothing	2½
Beddings	3
Books	2¾
Candy	14
Coats, children's	½
Corsets	4½
China and glassware	2
Children's dresses	4¼
Carpets, rugs and all floor coverings	2 1/[illegible]
Dress goods	3
Domestics	3
Embroideries and Laces	2¼
Fountain	135
Furniture	3¾
Furs	4
Gloves	3
Groceries	10
Handkerchiefs	3¼
Hosiery	4
House furnishings	2½
Hairgoods	3¼
Hats (men and boys')	4
Infant's wear	3
Jewelry	3
Knit underwear (men and women's)	3
Kimonas and house dresses	3
Ladies' coats	5½
Ladies' suits	5
Ladies' dresses	5¼
Ladies' silk underwear	3½
Ladies' neckwear	4
Ladies' sweaters	5½
Ladies' linens	3½
Linings	3¾
Leather goods	3½
Men's clothing	2¾
Men's furnishings	3
Millinery	7½
Muslin underwear	3¼
Notions	4
Patterns	4¾
Picture frames	2
Petticoats	6
Pianos	1¾
Ribbons	2½
Silverware	1½
Stationery	2¾
Sewing machines	2¾

DEPARTMENTS	YEARLY TURNOVER
Silks and velvets	3
Skirts	7
Shoes, Men's	2¼
Shoes, Ladies'	2¾
Shoes, children's and boys'	3
Sporting goods	3
Trunks and bags	3¼
Toys	4
Toilet Sundries	3¼
Trimmings	2¼
Umbrellas and parasols and sticks	4
Veilings	3
Wall paper and decorations	2¾
Wash goods	4
ALL STOCK OR HOUSE TURNOVER	5 times

CHAPTER IX

MERCHANDISING

Merchandise Control.— That a certain quantity of the stocks on hand must inevitably go to the mark down is conceded by every modern merchandiser. When to do it, and how to do it, and why it should be done is prompted by the knowledge of the quantity and its mark up value on hand. To know the value and mark up of stocks on hand daily is the essence of merchandising. It therefore behooves good management to conduct its control of stocks by the best obtainable accounting systems. The control may be at cost or at retail, but since all stocks are manipulated at retail value, it becomes necessary to control all stocks accordingly. Further, all percentages, whether profits, or otherwise calculated on the sales, enhance the necessity of knowing the retail value of stocks.

The requisites for control are as follows:

Inventory beginning of day, per cent mark up.
Purchases daily, per cent mark up.
Purchases to date (fiscal year), per cent mark up.
Mark downs daily.
Mark downs to date
Sales daily.
Sales to date.
Inventory ending of day, per cent mark up.
Planned sales for the week.
Planned sales for the month.
Best previous month's sales to beat.
Best previous sale day to beat.
Sales for the day last year.
Daily sales required to meet plan.

Daily average sales.
Sales for the month last year.
Sales to date last year.
Planned per cent mark up to close month.
Planned per cent mark up to close season.
Planned stock to close month.
Planned stock two month advance.
Open to buy.
Orders placed to-day, delivery this month.
Orders placed to-day, delivery next month.
Orders placed to-day, future delivery and on call.
Outstanding orders.
Reserve stock in warehouse.
Reserve stock in department.
Prices of merchandise in stock (by departments).
Best selling prices (by departments).
Sales by prices this week.
Sales by prices for the month.
Sales by prices last year for the month.
Open to buy by prices in volume of money.
Open to buy by pieces.

From the foregoing it will readily be seen that the question of merchandising does not merely take on the exchange of merchandise for gold, but presents a scientific problem in meeting competition. Aside from the sale of commodity of demand, it includes the promotion of circulation of capital.

Details of Merchandising.— It must be admitted that essential to obtain the information required. There is considerable objection in many organizations against elaborating upon accounting to obtain information. But to eliminate this necessary information is to merchandise blindly and to limit the volume of annual sales. The most important detail of an office in retailing organizations is the mer-

chandising control. The auditing and general bookkeeping is not difficult though the enumeration of the necessary requisites here mentioned appear to be voluminous.

Inventory Beginning (*Mdse. Control*).— The inception of any procedure must have its base. Especially is this one of the requirements in the calculation of stock manipulations of the various departments carried on in department stores or specialty shops. The value of such stocks is a secondary consideration, since its effectiveness for merchandising purposes is gaged by the percentage of mark up. To clarify this, reference is made to stocks that are known as style merchandise — such as women's outer apparel, domestic and piece goods, better known as yard goods, gauged by the length of time in stock, period furniture, novelties, etc. The percentage of mark up and the age of the stock are given very serious consideration in sales promotion. Should the stocks at the beginning of a period be marked at a low percentage, the buyer of the department would be obliged to make a quick turn over of the stocks for the beginning period. Otherwise all merchandise purchased at higher mark ups would be lowered until such time as the turnover of old stocks at low mark ups should be accomplished.

Daily Purchases.— The stocks on hand with the beginning of the day's business should be a known quantity. The percentage of mark up must never be overlooked. Added thereto are the purchases for the day, departmentally. The percentage of mark up must be within the requirements of the house policy. The percentage of gross profit must be changed monthly to fit in their natural requirements of the community or with the season of the year. Exception to this principal of mark up is taken where a special purchase is made to sell at a small margin of profit to stimulate trade or to give something for nothing, metaphorically speaking.

To possess the knowledge of the daily conditions of new stock arrivals, and its mark up, brings the attention of merchandise managers to the manner in which stocks are replenished, whether or not the required mark is maintained, whether or not a department is becoming overburdened with more merchandise than its healthy condition will permit. It is conceded that a department at the beginning of its season will carry a much heavier stock than when the season for its sales is well under way. But even then, the maximum quantity for such period should be established and controlled.

In addition to the knowledge of daily purchases, the accumulation of such purchases for the season or year receives prominent attention. It may be that the season has but a short time to run, so that purchases must be on the decline. Or sales may not be coming up to expectations and necessitate the cancellation of open orders for reason of a backward season. Or perhaps the accumulative purchases are not sufficient to meet the demands for the volume of business a department is accomplishing. The accumulative mark up is a requirement not only to control the differences of the accumulative mark downs explained later. The closing of the fiscal year also requires a readjustment of the value of the stocks on hand for financial as well as merchandising purposes.

For example, a department closes the season or year with a stock on hand of $100,000 with a mark up of 25 per cent profit. The assumption will be that the cost of such stock is $75,000. The question from a financial view point is whether the stocks are really worth $75,000 at cost. Considerable mark downs may have to be taken, or market conditions may have depreciated the cost value. Assuming that the department had an accumulative mark up of 35 per cent and that the stock at closing was $100,000, the cost of such stock at closing should be considered at 65 per cent or

$65,000, giving a better and true valuation, rather than an appreciative value.

Cost + profit =	100%	$100,000
% profit	35%	35,000
Cost	65%	$65,000

Mark Downs (*Daily and Accumulative*).— To eliminate mark downs in modern merchandising would be a colossal undertaking. Much, however, can be made unnecessary by the quick turnover of stocks. Its record must carefully be followed up and it should be incumbent on the part of the buyer to report mark downs daily, whether taken or not, thus keeping each department's daily procedure in touch with this important feature. It has been shown that merchandising control requires a daily and accumulative percentage mark up on all purchases. The mark downs daily and accumulative are kept in a like manner, showing the value and percentage marked down from the original mark up.

A department's accumulative purchases may present mark ups of 33 1/3 per cent. The mark downs to date represent reductions taken to the extent of 10 per cent, making the inventory mark up of 23 1/3 per cent. If the required mark up is 30 per cent, it will be demonstrated readily that the department is conducting its affairs at a loss. Again, a buyer may boast of the wonderful mark up of his stocks and turnover. But consideration of the mark down may not enter into the mind of the buyer in his braggadocio until attention is directed to it by the merchandising manager. In calculating mark downs, the inventory beginning is increased by the merchandise purchased and reduced by mark downs taken, thus giving the stocks on hand from which sales may be produced at its net percentage of profit.

A fallacy in the proper control of merchandise is the reduction of stocks on the floor without recording the mark down upon the merchandising records. This generally occurs by lowering the price to effect a sale passed upon by the buyer, but not reported to the accounting department. Whether this is often repeated or not, the fact remains that it has been done. Immediately the control is effected and a loss to departments will occur in setting up a profit and loss statement either at the month ending or the fiscal year. It may also show up as a shortage in inventory.

The transferring of merchandise from one department to another is accompanied by a mark down. The correct procedure in transfer stock should be as follows:

Dept. 1. Transfer to department 2, $400 at cost, $500 at retail.
Dept. 1. Stock is reduced $400 cost and $500 retail.
Dept. 2. Buys from department 1 the stock for $300.
Dept. 1. Takes a mark down of $200 at retail, charging the retail loss to department 1.
Dept. 2. Purchases for $300 the stock, which is the cost, and then marks up the stock in the same manner as new merchandise purchased from a manufacturer.

Sales (*Merchandise Control*).—For the purpose of merchandising control, the net sales only are to be considered in the reduction of stocks on hand. The term net sales signifies sales less returns. It is accomplished through the daily audits of sales checks on the merchandise control sheet as shown in Forms 19 and 23 and 24. An extra column is provided for accumulated sales for the month and period. The purpose of this is to place the management in a position to draw readily comparison between the accumulative purchases and the accumulative

sales. A stipulated departmental mark up being constantly borne in mind, a marginal difference can at all times be approximated at a glance in the comparison. Over buying must result in unnecessary mark downs and the elimination of profits. It is as important to keep closely in touch with the accumulated purchases as it is with the mark downs in the marginal difference with the net sales of a department.

Inventory Ending (*Daily*).—As outlined on Forms 23 and 24, the inventory ending at the close of business for the day is ascertained with its percentage of mark up. To summarize this is but to follow the heading of the form. It is begun by taking the inventory beginning with the fiscal year at cost and retail. Daily add thereto the purchases at cost and retail. To obtain new mark up, add or deduct merchandise transferred from one department to another as the case may be, deduct mark downs, add additional mark up, which mark up is to be written up in red ink, deduct sales, and the result is the inventory ending. Form 23 is the daily working sheet for each department. Form 24 is the recapitulation of all working papers and is the only form to be consulted by merchandising managers.

Planned Sales for the Week and Month.— To accomplish an object successfully, thought must be given to that specific object in an analytical form. The accomplishment of the objective rests upon the predetermination to win the goal. The objective in planning sales from a merchandising view has two divisions; one being the method in which the objective may be attained, the other, the volume in money representing the goal.

Here, the interest is centered in the volume. As a basis, the sales for the corresponding week a year ago is kept in mind. Depending upon the season of the year rest the sales promotion methods to be employed to support the

volume of business planned. The natural course of events and the economic conditions of the community may influence the increase of volume. If these conditions are encouraging, it should not be sufficient to rest upon such expectations. An undying struggle in the minds of all buyers is how to increase the volume for a period corresponding to that of last year. In planning all sales, the volume to cover, by a good margin, becomes paramount. To remain at the same volume of business means to stand still. This is interpreted as going backwards in a retail establishment.

It is not sufficient to plan for the week. You must plan for the month as well, thus enabling a department to retrieve itself in instances where certain weeks have not come up to expectations. Volume is always uppermost in the minds of those planning the sales, knowing that the percentage of burden is diminished when sales increase.

Best Month to Beat.— The planning of sales to excel that of the corresponding month of the previous year does not in itself adequately answer the purpose. Not alone must the month of the previous year be excelled, but the best month of corresponding prior years must be beaten. In retailing, there very often occurs what is known as an "off year," which is within the meaning of a backward season. It can readily be understood that there should be little difficulty in excelling the volume of such seasons. It therefore behooves the buyer not to overlook prior seasons' best sales. To eliminate them would be detrimental to the department as a factor in retail distribution of its commodity to the community, and its prestige would be placed in jeopardy. An analysis of old establishments gone backward will conclusively prove that their sales to a great measure have been retarded by virtue of neglecting prior years' records of accomplishment in planning both sales in volume and an adequate meeting of the demand in price, quality, and style stability.

Daily Sales to Meet Plan.—As a guide to be in keeping with the sales planned for the month, the average sales for each day are determined. Plans for selling are concluded accordingly. To determine the average for the day, the number of business days divided into the planned sales for the month will give as a quotient the average sales for each working day. The planned sales for the month is by no means an arbitrary figure. Though it is in a measure approximated, statistics of well organized accounting offices will enable a statistician to set up sales to be accomplished for the next month at least a fortnight before the first of the following month.

The procedure is to ascertain the volume of business for the month planned, corresponding to that of the previous year. The rate percentage in which the department is increasing its sales, plus 100 per cent, is the expected volume of business. It may so happen that a department is making exceptionally rapid strides in its sales. Or the direct opposite may be the case. The abnormal percentage for the first fortnight of the current month prior to the month in planning must either be added thereto or deducted from the previously acquired result. All of these calculations depend upon the seasonable demand for the merchandise and the general increase of business of the organization as a whole. To obtain accurately the percentage of increase of sales for a department, cognizance of sales increase must be taken for at least four months previous to the month in question when planning, as a further guide to accuracy.

Planned Per Cent Mark Up to Close Month.—Merchandise fluctuates in its demand, regardless of its supply, with the season of the year in which it may be put into use. This condition makes it necessary to undulate the mark up of stocks. The largest volume of sales in all department stores, with but few exceptions, is that of outer apparel, especially feminine attire. Here the exemplifica-

tion of mark up is at its best. The reason for this is that the merchandise is known as style stocks, and it must receive its turnover more rapidly than furniture or hardware to accumulate its profit. When these so-called style stocks are in demand, the profits must naturally be greater. A particular kind of street dress will be worth more in April than it will in August, or a summer dress made to sell during the months of July and August will not bring the same price in October.

To estimate profits of a stock made for a particular period that has passed its usefulness as a commodity is like reaching for astronomical phenomena.

Hence, the mark up of stocks must vary each month of the year. Lest it be overlooked, though certain stocks are reduced for seasonable reasons or otherwise, new merchandise of seasonable demand arriving in a department at a greater mark up will have a tendency to increase the average mark up of stocks carried on for trade in a department.

Assuming that a dress department is located in a large metropolis in an eastern state, the fluctuations in the dress department for its percentage of profit on mark up should be as follows:

January	32%
February	30%
March	34%
April	35%
May	35%
June	33%
July	30%
August	29%
September	32%
October	35%
November	35%
December	34%

The figures here mentioned are those with which each month is planned to end. Merchandise may be placed in stock at a 39 per cent rate of profit on selling. It may be necessary to take mark downs during the month, in which event a sufficient margin is allowed so that the month will close with the planned percentage of mark up profits.

In like manner is the closing percentage of a season regulated. A merchant employing buyers will regulate the maximum profits permitted and will expect his buyer or department manager to close the season with a stipulated percentage. There cannot be a universal mark up to close the season of any department. The geographical location affects this percentage.

Planned Stocks to Close Month.—The balance sheet of any organization will disclose the amount of working capital in use. The working capital permits a certain volume of business to be carried on conveniently, depending upon the turnover of the stocks carried in a particular trade. If the capital of a store is $100,000, it may conveniently, under good management, conduct a volume of one million dollars in sales per annum. Should that same organization conduct two million dollars sales for the year, it will find it necessary to borrow another hundred thousand dollars or slightly over.

Poor merchandising, permitting an unnecessary volume of stock to be carried, endangers the working capital of the store. Each overstocked department must show a loss for lack of turnover, and mark downs will be necessary to clear away the stock to make room for seasonable merchandise, or for want of cash.

Thus an essential in merchandising is to plan the volume of stock to close each month of the year, all of which is governed by the sales planned for the month and actually made during the month. This enables the buyer to take advantage of market conditions, lessens the mark downs

by reason of not being overstocked, and prevents capital from being placed in jeopardy.

A step further may be taken in this direction by planning stocks for two months in advance. Consideration must be given to the class of stock which is being planned and its usefulness to the community. Extraordinary care must be taken when plans are made for two months or over. All past year records should be scrutinized before determining the maximum planned stock.

Merchandising Open to Buy.— When to buy merchandise and what volume to buy can only be deduced by the sales effected or by the rate of turnover the department is accomplishing. If a department has a backward season or stock cannot be made to move, it cannot make new purchases, no matter at how much below the market value stocks may be offered for sale to the department.

It has been stated in the chapter on turnover that purchases should be made in small quantities but often supported by the sales. To know how much to buy weekly or every fortnight, the planned sale is the first requisite. The second is the accomplished sale and the rate over or under the planned sales for the period. Third, the stock on hand and the usefulness of the stock to the community in accordance with the length of time still to go to complete the season must be considered. Discretion must be exercised in the calculations in replenishing stocks.

It will be found that the modus operandi here scheduled will be of infinite value in the proper guidance of scientific purchasing, if the term scientific purchasing can be applied appropriately. This particular feature of merchandising, relating to volume open to buy, is perhaps given more attention in retailing than in any other organized business. It is the protection of the circulating capital that is carefully guarded, as well as the protection for profits. Every protection from overstocking must be resorted to. On this

subject it may be argued that stocks may be carried over to the following season and thus eliminate unnecessary losses. This has been tested so often with unsatisfactory results that it is fallacious to give the method any thought whatever.

The risks taken in carried over stocks lie in the possibility of their becoming shopworn, of decreased demand, change of style, moth damages, depreciation in value, and the interest cost on money value. Greatest of all is the diminution of working capital.

Orders Placed To-day this Month Delivery.— As has been shown, actual sales affect the planned sales. These two elements must affect present purchases. The replenishing of stocks should be induced by the turnover and not by personal feelings for style, season or special inducements. When plans are promulgated and the realization of sales as planned is accomplished, the ratio of the purchases against sales becomes the correct guide. Thus orders that are placed for current month delivery are charged to the planned purchasing power for current month's business.

The purchasing power for second, third or following months are retrospective in relation to actual sales, planned sales and stocks on hand. There exist conditions in almost every retail establishment where orders must be placed for future delivery or delivery upon call. In the classification of stocks, in certain trades where the commodities are known as staple stocks, there exists more or less of a fluctuating market. Such stocks are not seasonable merchandise, but for proper replenishment and variety and as a result of the effect of economic conditions, it becomes necessary to place orders considerably in advance. The placing of orders for future delivery should not be encouraged. A study of the department requiring orders to be placed for future delivery must necessarily show a smaller turnover.

Outstanding Orders.—A competent record of all outstanding orders becomes an important factor. An outstanding order with a manufacturer, wholesaler, importer or jobber, should not merely be considered as merchandise expected to be received in the department at a specific date. When the moment orders for stocks are placed, they become a part of the available stocks to carry on trade. The available stocks are those that are in the department plus open orders and reserve stock. The ratio of the purchasing power, obtained from actual sales compared with the planned sales, must be subordinate to the available stocks. To lose cognizance of this condition must bring on greater stocks and absorb profits by means of the mark downs and result in a greater clear way than the end of the season usually permits. In the calculation of all merchandising problems, a correct solution in promoting sales ideas can only be terminated when the available stocks have received their full complement of thought. From a financial viewpoint, it is obvious that the circulating capital is courting danger should all departments be permitted to place orders without careful consideration being given to the available stocks.

Control of Outstanding Orders.—The control of open orders is dependent upon careful follow up methods executed by a clerk realizing the responsibility and the costly result following neglect of his work. There are many methods in use. The author will describe one that has proven itself exceptionally satisfactory.

A proper form of order is to be determined upon to fit in with the department's merchandise. Such stipulations are on the order blank as will give the store the necessary protection and liability for transportation, charges, quality, quantity, value, counter signatures, etc. These orders are to be on a light weight paper made up of five copies, one going to the manufacturer, wholesaler, jobber or exporter,

and the others to the receiving department, merchandising office and general office, with a copy for the buyers.

The manufacturer's copy of the order is a confirmed order properly signed by the merchandising office or a member of the firm, authorizing the order and making binding the contract between the store and the vendor for all covenants and stipulations contained on the order.

The receiving department's copy of the order is given to this department after the order has been confirmed. It may be opportune to mention that all orders shoud be mailed to the vendor from the firm and not handed to the vendor by the buyer, unless the five copies are made by the buyer and confirmed by the proper authority upon the return to the store by the buyer. Copies are made by means of carbon papers.

The receiving department will maintain a file (box files or accordion files) for each department, placing the receiving department copy of order in the proper file, alphabetically arranged. When merchandise is received completely covering the order placed, the copy of the order is attached to the invoice or folder containing the receiving date, and is sent to the general office. When but a part of the order is received, the value of such shipment will be deducted from the copy of the order to show the balance remaining open. Before the close of the day, the receiving department will set up in columnar form the amount of merchandise received by the various departments and send this report to the merchandise office.

All merchandise received is deducted from the total outstanding, and new orders are added thereto. Cancellations and returns are deducted. This is compiled through an accumulative method of accounting. For example:

May	1	Open orders	25,000
	1	Orders placed	5,000
		Open.	30,000
	2	Received.	11,000
	2	Cancellation.	1,000
		Open.	18,000
	3	Received (deduct) ...	7,000
		Placed (add)	3,000
		Cancelled (deduct) ..	1,000
	4	Open.	13,000

The same method is followed by the receiving department on a departmental recapitulation sheet of all open orders.

General Office Copy.— This copy is merely recorded in order file formation for comparison of cost of the commodity when the incompleted order has not been sent to the general office by the receiving department.

The buyer's copy of the order is usually taken care of in a similar form by the buyers themselves or by their clerks, when a department is large enough to employ clerical help. However, it is not essentially necessary for the buyer to do this as the merchandising office keeps all buyers informed daily as to the department's condition.

Reserve Stocks.— In the past, merchants were wont to carry large quantities of stocks of various classifications of merchandise. These stocks were usually stored in warehouses or storerooms and termed Reserve Stocks. They consisted of hosiery, knitted underwear, sweaters, blankets, furniture, floor coverings, and even wearing apparel. It has been the custom of merchants to follow this method, and it is not surprising to find these conditions existing in our present day with some stores in almost any city. It is a

fallacy in modern merchandising that is unpardonable. No merchant in retailing should permit reserves of any commodity. It is better to pay more at a future date than to carry stocks in reserve.

Financially, part of the circulating capital is prevented from being in motion. Thus the diminution of capital and the turnover must be retarded. From a merchandising viewpoint reserve stock loses its freshness, deteriorates from lack of proper care or on account of lack of demand or change of style. Perhaps the reserve may be due to looking into the future. Such thoughts of the future result in speculations or gambling, which cannot be synonymous with modern merchandising. There may occasionally exist an exceptional incident, but this practice must eventually be detrimental to the best interests of an organization. To be a piker in merchandising is by far a greater credit than to overload one's self with an unnecessary burden. Whether the store's outlet is in millions of dollars or hundreds of dollars, it is advisable to buy from hand to mouth, so to speak, in accordance to a department's requirements.

Best Selling Prices.— Perfunctory merchandising is that in which controls are set up in monetized segments. It may be admitted that a certain degree of success is accomplished by this but the superlative degree of success is only possible when, in conjunction with monetized segments, the prices of the various quantities receive the same consideration. A knowledge must be established giving the quantities sold by prices. This knowledge is obtainable daily through the sales checks or price stub tickets of each department, setting up daily the quantity sold of each price of merchandise carried in stock. The purchasing power will then be centered on the best priced merchandise moving in the department, thus enabling the department to create a better turnover and a larger variety of stock at the best selling prices, from which customers may make their selections. This procedure continued yearly is a most per-

fect guide for the following year's purchases, not only by prices but for quantities sold during each weekly period (see Form 53).

For sales promotion ideas, this information at hand becomes of intrinsic value. Especially is this knowledge paramount for better control as the department grows in sales. In the form here given, the information is set up on a basis comparative with that of the previous year. It may so happen that one year the best selling prices will be centered amongst one group of prices, and during the current year at another. This will promptly demonstrate any change of policy the organization may have established, or whether a change in policy in regard to the classification of merchandise the community is forcing upon the house is advisable. Perhaps it may demonstrate that a buyer is not keeping within the policy of the house. In any event, the management is apprized of conditions promptly during the course of the season, rather than by a haphazard guess or an analysis of conditions to elucidate information that has been eliminated from thought.

Certain classes of merchandise are best for a guide by having the information monthly. However, merchandising is always at its best on a weekly basis. In addition to weekly reports of best selling prices by pieces, a daily report as a result of the daily newspaper advertisements is set up, thus giving daily sales conditions by pieces, prices and best selling advertising prices, including material and color, should a particular color or stock be in seasonable demand.

How to set up the statistics of sales by prices is formulated by two methods. It has been here mentioned that the information is obtained from the sales checks. This method is the longer method, but the most accurate one. A department's merchandise is segregated into its classification of color, style or make. For example, furniture should be as follows:

Day sold	PRICES										Quantity total	Dollars total
	Brass beds	5	10	15	18	20	25	30	35	40		
M												
T												
W												
T												
F												
S												
Weekly total												

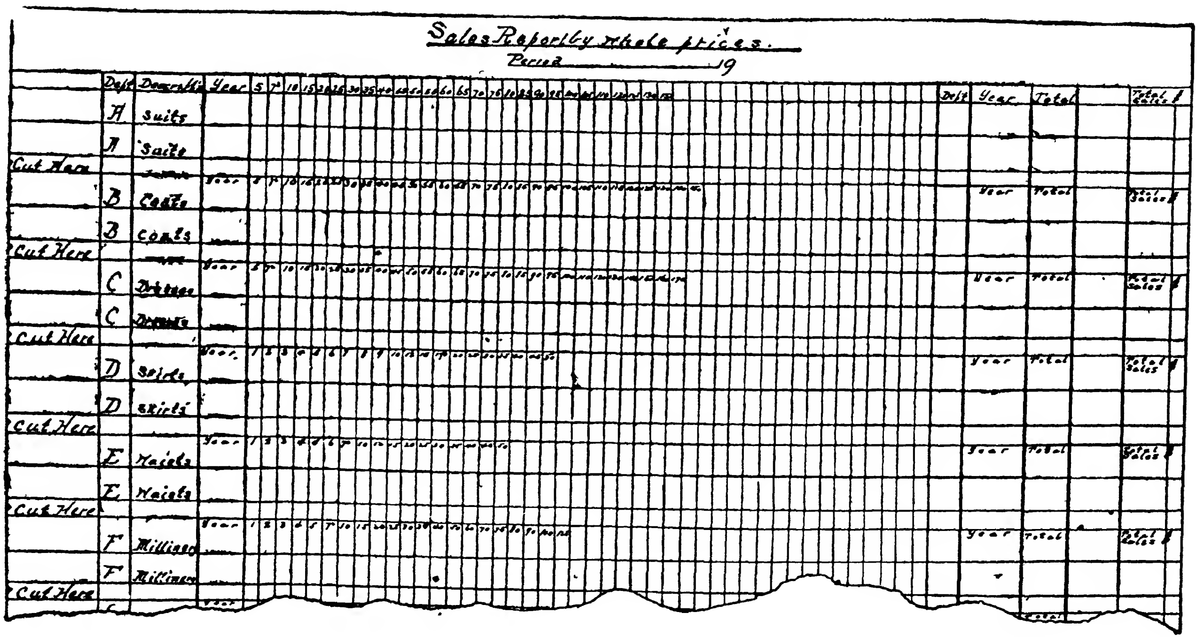
Women's coats	Col.	5	7.50	10	12	15	20	25	30	35	40	Quan. total	Dollar total
M													
T													
W													
T													
F													
S													
Weekly total													

At the end of the weekly period, the total sales at each price will be ascertained by addition and set up on the recapitulation sheet as shown in Form 53.

Another method for setting up a sales record of the number of pieces sold at prices is by means of a stub attached to the price ticket hung on merchandise marked for selling. These stubs will bear the lot number or style number by

which that particular class of merchandise is known, which may be either the store's own style number or the manufacturer's style number. The color and selling price will also appear.

Promptly following the making of a sales check, covering the sale of a particular article, the stub will be detached and deposited in a receptacle for the purpose of retaining all the stubs. This receptacle is usually placed at the wrapping desk or, if the merchandise is of such character that no wrapping desk is convenient, the receptacle will be placed at the cashier's desk or inspectress' desk, all depending upon the general outlay of the store's system of making change and parcel wrapping. These stubs, at the beginning of business the following morning, will be removed from the receptacle, assorted by prices, color, quality or any such method in which the record is desired to show the quantity sold by prices. The assortment having been concluded, an entry will be made in a book form kept in the department. A report will be sent to the statistical department of the general office, which will, in turn, set up the general office record for future purposes along the line of sales by prices conforming with the set up as shown in Form 53.


Sales Report by whole prices.
Period 19
Dept
Year
Total
Total Sales $
A Suits
A Suits
Cut Here
B Coats
B Coats
Cut Here
C Dresses
C Dresses
Cut Here
D Skirts
D Skirts
Cut Here
E Waists
E Waists
Cut Here
F Millinery
F Millinery
Cut Here

CHAPTER X

MERCHANDISING

In previous chapters, the author has discussed merchandising in many particulars, especially with regard to the question of turnover, which is the basic principle of merchandising and the source of obtaining profits. Successful merchandising must result in profits, a large volume of sales and perfect coöperation; all of which are governed by predetermination of an honest objective. A dishonest objective undermines the full complement of merchandising, and failure is the ultimate culmination. Failure to accomplish success where honesty receives its full complement may be due to many causes. These may be divided into the following:

Ability.
Character.
Capital as to man power.
Location.
Store layout.
Coöperation.
Service.
Sales promotion.
Merchandise control.

In the discussion of the classes here named as mentioned in the chapter of turnover, the subject of the buying of merchandise must be eliminated entirely. There are no rules governing buying. Wanted merchandise is selling merchandise. It is often termed desirable stock. An organization overloaded with undesirable stocks that must go to the mark down when the season has been good, will

generally find that its buyer has used poor judgment. Though the buyer is indefatigable, many friends and good fellowship often make the store bear the consequences. Or the buyer may be indefatigable but he may not know the functions of the buyer's position.

Ability.— Considering the first requisite of the diverse requirements for successful merchandising, ability plays a most potent part. Its beginning is with the proprietor of an organization and its administrative executives. Ability for the retailing business is one necessity, but this is only subordinated to education. Ability should not only exist amongst executives, but in all classes of help. These cover all the coworkers of the organization from office clerks and sales help down to the porters. What necessity is found for education? It does not imply that the sales person or porter should be the happy possessor of a university diploma, but simply of the education necessary to perform his functions to perfection.

Efficiency may be one of its interpretations, but efficiency has been strangled so often that its use to convey an explicit meaning has come to be as broad as the interpretations of the Delphic oracle's predictions in ambiguous terms, so that the coworker, not being able to define efficiency for lack of knowledge, does not comprehend the term nor its requirements.

Educating coworkers of an organization to perform their functions perfectly is creating ability. The better the ability, the greater the result. Educating along the lines of coworkers' functions is not sufficient, and many organizations, which stop at this limitation, retard their best interests.

It is assumed that the elementary subjects of common school education have been taken care of by the laws of our government. Polishing education along the lines of modern economics and social conditions is as necessary to

the organization's proprietor and executives as it is to their coworkers in order to enhance the value of ability. This form of education is equal to the knowledge of how cloth is produced at the mills, or the story of how silk is made from the cocoon to the dyers, or the porter's knowledge of why oxalic acid and water used to mop up floors will give it lighter or whiter appearance.

How to accomplish this education for the proprietor and coworkers is simple in its undertaking, providing it becomes a part of the store's organization. Educational instructors are employed. Periodical lectures on various subjects must be conducted. Store organs, better known as store news or magazines, must be issued. There may be a store library, general store meetings, department meetings, with the department manager at the head imparting knowledge of market conditions as well as of the merchandising problems open for discussion.

It is surprising how much one knows when put to the test in an open discussion in which coworkers participate. As an educator, such methods are without a parallel. It not only broadens the scope of knowledge but engenders better mannerisms as well as improvement in speech. Ability is knowledge and, since knowledge denotes power, lack of such power as ability furnishes will defeat any project, whether it be retailing or anything known to civilization.

Character.— This second classification is equal to that of ability. Its scope is of stupendous proportions and tremendous importance. Character of the personnel is of more importance than that of any other form of business. Its reflection comes from the owners of the business. Their exemplification of character not only to coworkers but to the entire society must be unblemished. Why should character carry on such tremendous importance in its relation to merchandising? Turnover is the answer.

It is doubtful whether any father or husband would per-

mit his dear ones to enter an establishment employing persons that wholesome society would ostracize.' Just picture a woman entering an establishment, who is approached by a coworker in the establishment, whose appearance and expression denote refinement, cleanliness of thought, of action, of speech, of kindliness and personal interest. The woman, a prospective customer, is thus made to feel safe in her surroundings. Her confidence is promptly established. Her thoughts are not diverted from but are immediately concentrated on the object of her search. In fact, the sale is half won or, at least, a permanent patron is added to the store's assets.

On the other hand, have the same woman approached by a coworker of nonchalant disposition, who thinks more of a rendezvous than any other thought. A discussion of the two results to the best interest of the organization needs not be undertaken. It suffices to say that, under the second circumstances, good will is depreciated and a prospective sale invariably will be lost. A close study into the character that represents the store will show that this is the fulcrum of success.

Character does not cover personality alone. The merchandise itself is changed from the neuter gender to that of personality in its relations to store-keeping of modern times. Questionable character is repulsive, not only to wholesome people, but eventually to others of questionable character. Likewise, does shoddy merchandise sooner or later take on repulsiveness. A conscientious coworker who is out to win success can only find success through real hard work. He is one who will give two dollars of labor for one dollar received. Unfortunately, the masses cannot understand this. The store that will give full value and a little extra for every dollar they ask for their stock must of necessity create trade, receive trade and hold trade. Abraham Lincoln may well be quoted in this respect when he

said "you can fool all of the people some of the time, some of the people all of the time, but you can't fool all the people all of the time." Then there is the paradox of P. T. Barnum, a "Sucker born every minute."

Capital as to Man Power.— The capital of the retail establishment may be divided into three divisions:

Circulating capital.
Fixed capital.
Man power capital.

Of fixed capital and circulating capital, the author has previously made mention. Since the durability of circulating capital is less than fixed capital, the circulating capital will be diminished unless it is accumulated by profits. The extent of any business venture depends upon the cash originally employed. Borrowed capital is usually in the form of negotiable instruments.

Of the three divisions, man power capital becomes an important factor. Not only does it represent a cash value as to labor, but it also has the power of producing evolution to circulating capital, which puts industry into motion. Man power capital is represented by knowledge — which is power — without which power cash capital or its exchangeable value other than knowledge of labor will soon diminish cash and make the business venture a failure. It behooves the merchant to equalize his cash capital in proportion to man power at a ratio of 1 to 2. That is, knowledge in any particular branch of retailing must be twice as great as its exchangeable value in cash. The earning power for the organization reflects the personal earning power of the coworker, who must be a possessor of man power capital. Every organization should possess an educational curriculum with the objective of development of man power capital.

Location.— In its relations to merchandising, location becomes a prime factor. In this respect it may be subdivided into the classes of

Inceptive location.
Popular location.
Medium location.
Exclusive location.

Inceptive location refers to the premises and locality in the city or town where a store is contemplated. Where the community is not rated as a first class city, the drawing element must receive careful attention. This requires the geographical consideration of neighboring towns, villages, hamlets and farming surroundings. There are cities and even towns whose suburbs are considerably greater than their own population. Then, again, there is the railroad center from which a transient trade may be derived. The population, the industries, the earning power of the people, their habits and customs, amusement centers, climatic conditions, productions, banking facilities, transportation facilities, and adjacent towns have their share of analysis.

These elements must receive careful study prior to investing capital, not forgetting a thought to competition. When all is favorable and a decision is arrived upon, the retail business section is to be determined. Upon this determination rests the class of merchandise to be carried on for trade. Upon concluding the selection of the retail center, the question of the right side of the street is next in order.

Observation will conclusively prove that one side of the street is a greater thoroughfare than the other. Where the thoroughfare is greatest, the selection for the store site must be determined upon. There are a number of cities where both sides of the street are almost equally used by the inhabitants. Yet even in these instances one side will always

be a shade the better. You cannot merchandise unless the people are there to merchandise with; the greater the number of the people, the greater the merchandising.

Popular location refers to the masses and the center in which the poorer classes are accustomed to do their shopping. Closely following this location is generally found the medium location, which caters to the middle classes. In our country, as shown by statistics, 90 per cent of the entire population possess less than one thousand dollars; 8 per cent possess from one thousand to five thousand dollars, and 2 per cent possess over five thousand dollars. From these statistics a clear discrimination may be drawn for the poorer classes or popular trade, the second class for medium trade and the exclusive class, which is known as the better, or exclusive trade.

A distinction is also made between the exclusive trade and ultra-exclusive or society trade. The exclusive trade will always endeavor to isolate itself from the popular and even the medium trade. To exemplify this, New York a century ago had its shopping center at Chatham Square and Catherine Streets. When the poorer class began to inhabit this section about the time of the Civil War, the shopping center moved to Grand Street and Bower Lane, now known as the Bowery. Shortly after the war, it again moved a mile further north near Fifth Avenue. In the last fifteen years, a further move was made to 34th Street and up to 42d Street. The fact that the popular trade and medium trade localized itself in certain shopping centers, and a tendency to populate other sections of the city, assisted in the movement of the retailing section. It was further assisted by the new railroad centers of the New York Central Railroad and the Pennsylvania Railroad.

The exclusive trade until a decade ago was located on Fifth Avenue from 31st to 35th streets. To-day the influx of other classes of trade has forced the exclusive trade to

move further north to where it is now located. These various movements conclusively demonstrate that location and the class of merchandise to be carried are in trade closely allied. A retail organization will sometimes inadvertently pass from the popular to the better grade of merchandise, generally through the constant changing of buyers, and will not awake to the change until the sales begin to diminish and the turnover slackens. If it is the intention of the store to change the classification of its merchandise, the administrative body of the store must be farsighted enough to prepare a change of store location.

Layout.— The store layout is a continuous thought in the management of the retail establishment. The meaning of the term layout is the manner in which shelving, counters, tables and racks and aisles are arranged. The street entrance to the store must immediately attract the attention of the patron and create an impression of pleasant surroundings that will make the patron feel like seeing more. The atmosphere should be filled with a feeling of happiness, the clerks should be ready with a delighted smile to wait on the patron with the feeling of not only good will, but of pleasure at attending to the patron's wants. The appearance of coworkers has a tendency to enhance the value of the store layout.

The aisles should at all times be as wide and as many as the width of the store will permit. Where counters are used, which generally are located directly in front of walls, the width of such counters must receive consideration with regard to the class of merchandise used. For example, a glove counter must be upholstered and one-third the width of the silk or domestic counter, or of such counters as are used to display linens, muslins and dress goods. All cases and fixtures of every description must be appropriate for excellent display of the merchandise which the section houses.

Beginning with the basement, it is customary to have such departments as house furnishings, groceries, meat market and dairy products. Many stores utilize the basement as a lower price store, and carry here a complete department store stock. This does not permit the basement, or downstairs store, to take on the appearance of an auction house. Its enticing layout must be in harmony with the store in general. All floors should be so arranged as to denote individuality in accordance with the stocks and for the comfort of the shopper.

Coöperating.— The retail establishments and department stores make it necessary to subdivide coöperation into three divisions:

Coworkers coöperation.
Departmental coöperation.
Department head coöperation.

Economics teaches us that labor is the ultimate price that is paid for everything. The exchangeable value for labor given by the worker of a store is cash; sometimes cash and commodity. A remuneration having been paid and being paid for labor, it is within the rights of the organization to expect such labor, better known in retailing as services (labor being better applicable to manufacturing production) to be as the organization wishes it. Such rights must be exercised with precautions, always having in mind that capital and labor must work harmoniously together to accomplish the objective. The coördination of all coworkers to coöperate, as it were, in a single unit must follow. Assimilation, when referring to the animal body, is the building up of tissue. This is done through organic substances, from proper nourishment. Coöperation of all classes of labor, direct or indirect, should receive such nourishment in the form of education on the subjects of human nature, altruism, clean thought, value of progress,

the rewards of honest execution of work and happiness derived from work, and from harmonious contact with the fellow-worker.

We are taught that poisonous substances taken into the body cause dissimilation or the tearing down of the body tissues. There is no distinction in the application of foreign thoughts to a coworker's mind. When destructive thoughts or thoughts that divert the mind from clean activity are engendered, there can be no coöperation.

It is the object of every department store to operate each department as if it were an individual store. In many instances these departments take on specialization in the commodity handled. Those stores that do not specialize their departments, can do but a limited volume of business. Lest it be overlooked, modern commercialism is in the form of specialization, and the greatest factors that department stores have to contend with in competition are the specialty shops.

In specializing the merchandise carried in trade in a department, it becomes a necessity to carry the class of merchandise to meet the demands of the trade catered to. The sales person should not be placed in a position to say "very sorry, indeed, Madam, but we do not carry it in stock." Buyers often neglect to complete their stocks and its entire complement. The moment the neglect becomes effective, the department has its shortcomings and specialization is defeated. It is regrettable to say that such conditions exist in most department stores. Even in the so-called specialty shop, in the majority of cases, they often do not complete their specialization.

In the coöperation of departments it will be often found that the management of one department through petty jealousy of another, will retard the advancement of the other departments and thereby engender the same feeling for their own department. It is hardly conceivable that

such feeling should exist, but only in the exceptional store, where education of mind and trade is a part of the store will it be eliminated. The feeling of one department against another will arise from so insignificant an action as removing a table, a rack, one foot of floor space, a window display for a day. A store tribunal, consisting of its co-workers, will be found a most excellent method of overcoming and combating such conditions. One department must at all times recommend other departments.

Perhaps the greatest evil and enemy of coöperation in stores is caused by the lack of harmony amongst executives. Every executive has his functions to perform. They must be performed without fear, with farsightedness, be well balanced logically and with the paramount thought of the good of the store. The ideal executive of the retail store is one with a happy trend of mind, cheerful on all occasions, a student of human nature, well educated through schooling and worldly knowledge, having complete control of his temperament and long training in merchandising. All executives do not possess these qualifications and it often happens that one may feel petty grievances, generally without real cause. Distracted thoughts follow and the store bears the brunt of such distraction. Men are sometimes prone to tell their troubles to some coworker. The co-worker becomes the medium of circulation, thereby engendering destruction of coöperation throughout the store. Executives should have their weekly meetings, in which all supposed ill feelings are to be aired, coöperation discussed and the furtherance of progress promoted.

Service.— Undoubtedly, the greatest factor for commercial success in retailing in modern times, and greater still for the future, is Service. An enterprise without service is likened to suspended animation, or an inanimate state awaiting a resuscitator who knows how to conduct retailing along modern principles and who besides being

an executive of ideas (sound ideas) is also a humanitarian.

The question of capital and labor is endless, yet we must concede that capital and labor must work harmoniously together to assume success. The modern department store is an exemplification of capital and labor in two forms:

1. Capital and coworkers.
2. Store customers.

Capital and coworkers will be treated as the store or organization in its relation to service. It is common for any interested party in retailing to pick up a newspaper of any of our cities and read:

"The People's Store," or "Make Blank and Company Your Store." Most of this is pure and, in most instances, unadulterated "bunk." The store may wish to have its organization patronized by the entire community. The mere fact that its desire becomes known through publicity does not necessarily prove that the desire is accomplished. The desire must be applied to the laws of "cause" and "effect."

It must be promulgated from the administrators to the coworkers, not merely by word of mouth or by a placard in the coworker's locker room that the store wants increased sales. The coworkers must be trained in perfect salesmanship. It must not be overlooked that the coworker spends the greater part of his life at the store. Unless that coworker's mind is at ease by sufficient remuneration, harmony to perfection with the fellow-coworkers — to assure happiness in being at the store — congenial surroundings and interest sufficient to wear a smile that is broad and benevolent, any desired effect must be defeated. When the training of the coworker is an accomplished fact, only then can proper service be rendered to the community.

The embryonic stage of service is with the coworker. His schooling must be in accord with the house policy before he can be expected to render service to patrons.

Optimism is a most wonderful doctrine, but to think that the customer is receiving service without training the help to render the right kind of services is a delusion.

Having educated the coworker, the question arises as to what service is to be rendered a patron to make this patron a permanent customer, an asset to the organization, so that the mere mention of the organization's name immediately brings thoughts that are synonymous with pleasure in shopping. Service may be segregated as follows:

Courtesy.
Accommodation.
Value.

Courtesy.—Many are taught courtesy from childhood; others cultivate their disposition to be courteous, and still others find they are forced to be courteous. The latter character is the unwanted class in every walk of life. David Bates, in his poem "Speak Gently," says:

> "Speak Gently! It is better far
> To rule by love than fear.
> Speak Gently! Let not harsh words mar
> The good we might do here."

Accommodation.—It is one of the most beautiful reflections that the teachings of brotherly love are part of our existence upon this planet. Altruism must certainly bring happiness to the altruist. This should be part and parcel of an organization's policy. The author agrees that no business organization is a charitable institution, and that business is founded for profit. But profits are accumulated by turnover of stocks, and every possible element that may lend assistance in turning stocks must be brought into play. Accommodation is a great factor that must be reckoned with, especially in retailing. In other businesses, accommodations take on a different aspect, though the one

who receives the accommodation usually pays for it in the form of value received. The retailer may receive it in a part of his mark up or directly charge it as part of his store burden. In what form may the department store accommodate its patrons? The ways are many and they usually are:

Charge accounts.
Parcel wrap accommodation desk.
House shoppers.
Obliging assistance.
Shopping guides.
Baby nursery.
Store hospital.
Professional nurses.
Children's playground.
Rest rooms.
Roof gardens for resting and shopping.
Sun parlors.
Musical entertainment.
Reading and writing room.
Stationery for patrons' use.
Post office.
Theatrical attraction, ticket offices.
Fashion Bureau.
Complaint Adjustment Bureau.
Store Information Bureau.
City and General Information Bureau.

In fact, any good, sound idea that will make the customer feel at home and satisfy his or her wants, should become a part of the accommodation service rendered, and a convenience for shopping.

Value.— Quoting David Ricardo,[1] "if it (a commodity) could in no way contribute to our gratification, it

[1] *Political Economy,* Chapter 1, on Value.

would be destitute of exchangeable value however scarce it might be, or whatever quantity of labor might be necessary to procure it."

He further says, " In speaking of commodities, of their exchangeable value, and of the laws which regulate their relative prices, we mean always such commodities only as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint."

The subject of variations of value and the influence of demand are divided into:

1. An increase of value, from a diminution of quantity.
2. A diminution of value from an augmentation of quantity.
3. A possible augmentation in its value from the circumstances of an increased demand.
4. Value might be diminished by a failure of demand.

Ricardo, though he lived early in the nineteenth century, has so well defined value and the principles of demand, that no exception or comment is necessary.

A parallel, however, may be drawn to the misinterpretation of value as commonly applied in modern retailing. A retail merchant who will mark commodities, regardless of the demand in the community, at a close margin of profit, will claim that the commodity is of wonderful value. Again, the buyer will go to the market and pick up (using here the customary trade expression) a lot of merchandise, call it a " job " if you like, at a price at cost or below cost of production. The arrival of the merchandise at the store will be marked at a very close or reasonable mark up, sometimes a greater mark up. In placing the merchandise on sale, value will receive considerable expression. That is, the merchant's opinion, perhaps his honest opinion, is that wonderful values are being given for the price and he accentuates his opinion by bold advertising.

Consideration must be given to the consumer's opinion of value, which is more important than that of the merchant. The consumer, believing that her purchase was worth every cent paid, and even agreeing with the merchant that the value was exceptional or even extraordinary, will forget the consideration given for the commodity purchased and solely judge the purchase by its use, its wear, its durability, the benefits of pleasure gained by its purchase. These results are the measure of value on commodities placed by the ultimate consumer, by which a store's service may be either enhanced or destroyed.

Destructive service is first begun by inflated values or misrepresentation. As an example, here is an advertisement generally appearing in newspapers in which department stores advertise:

> "Extraordinary is the only word which seems adequate in describing the splendid values offered in this sale.
>
> "Hosiery sale. Savings are quoted as a fourth to half, but that means savings of 25% to 50% on our regular low prices, etc.
>
> "$1.75 to $2.50 silk stockings, $1.39 pr."

The question of value here must receive particular attention. No merchant could honestly sell a $2.50 stocking for $1.39 without impairing his trade. Why is the $2.50 stocking being sold for $1.39? The consumer does not know it, but the merchant knows that the lead contained in the silk will reduce the stock to an unsaleable state unless that stock is made to move quickly. Perhaps the stock has already been kept too long and, after the customer has fallen for the bargain and has worn the stocking once or twice, they are torn or holes fall into them. The question arises, how many of such customers will again visit this particular hosiery department for their wants. The answer is obvious — it will only be those who have

fortunately picked up an exceptional good pair of stockings. In this particular advertisement, the store's fallacy has been the lack of explaining this tremendous reduction.

The creating of furniture sales, white goods sales, house furnishings sales, drug sales, and any number of others, must not be a trumped affair, nor a job lot manufacturer's outlet, but an honest, truthful and reflective statement of the whys and wherefores of the sale, always having in mind not the merchant's opinion but that of the patron. The merchant's opinion won't count for much unless his words are substantiated by the products he deals in, regardless of the class of people catered to.

Sales Promotion.—In part, this subject has been discussed in the chapter on turnover. There are two distinctions in merchandising. The one being buying, the other selling. Of the two, the latter is the greatest problem. Where the enterprise is of small proportions, it is customary for the merchandise man to care for the merchandising, both buying and selling. In larger organizations, a salesmanager is a necessity.

A sales promoter is not one who knows too much or knows all about sales, but is rather the possessor of extraordinary brain power, a quick thinker, in touch with all the economic conditions of the country as well as of the community in which the store is located, and a master in salesmanship.

Retail sales promotion is at variance with the sales promotion of the manufacturer. The one is the distributor to the ultimate consumer, whereas the other sells to the retail distributor. And in most instances for a considerable length of time prior to the use the consumer may utilize the commodity. The question of supply and demand is the problem for the retailers to solve. It is of the utmost importance for the sales promoter, at the beginning, to possess a keen understanding of the economic conditions of country, state and community. In the analysis of supply and de-

mand, a thorough understanding of labor conditions must be considered, for cost of production regulates the exchangeable value of commodities. This has been demonstrated persistently during the European War. The increase of labor from land products in commodities of almost every description increased the exchangeable value, better known as the market value.

Sales promotion requires good, sound ideas. A factor that is a modifier of sales promotion is competition. Careful consideration should be given to the population of the community and its surrounding counties from which trade is expected. From the known population, the greatest volume is set as the goal — the highest peak possible to be reached in annual sales. This having been done, a thought as to transient trade is not to be overlooked. The wealth of the community and how it is distributed to the class of trade to whom the store caters, is of utmost importance. Usually this is controlled by the industries of the community that support labor. Where labor is in big demand, it is reasonably certain that a large retail exchange of commodity for gold must follow. Where the community does not require an abundance of labor, the retailing exchange of gold for commodity must of necessity be limited. If the division of wealth be divided into two classes, that of the extremely wealthy class and that of the lower class, and the population is small, it must follow that the wealthy class will seek their requirements from exclusive establishments situated in the larger communities, and the possible exchange of gold for commodity from the poorer class is limited to that paid for necessary essentials.

The present and future of the store must at all times be paramount in promotion of sales. In looking into the future, the coming generation must be educated from childhood to look upon the store as a place for good things, and to be proud of the fact that it is an organization where

merchandise obtained always gives pleasure and value received. To this end, a store should protect its future business and instill the desire of shopping in the coming generation. Bi-weekly or monthly prizes should be offered for compositions, essays, suggestions or any feature whatever that brings the store to young minds. For right here is where the family begins to discuss the store at the dinner table or even in social circles. When such discussions of a store become a household topic, there can be no greater advertising to bring the right kind of results.

A store committee, consisting of the more important executives and buyers, should be appointed to meet once a week for two hours, to discuss ways and means to promote sales. This committee will gradually take every detail of the store and its community into its discussions. It is surprising to know the wonderful results that follow. The entire uplifting of the store is the result, and occasionally outsiders' opinions and travels will polish thoughts generated from these committee meetings.

A cardinal essential to sales promotion is a good idea. Ideas make a business. True to this, it becomes incumbent upon the sales promoter to study new ideas continually, especially original ideas, well analyzed before they are put into motion. Sensational ideas create curiosity and stimulate desire, but their purpose is defeated when they are too often repeated. They not only must produce a desired result, but must be the means of creating in the minds of the community of patrons thoughts that are homogeneous of the commodity offered for an exchangeable value, either for the demand of the present or for the future. Ideas must be acceptable to the community to produce the desired effect in the store organization. To experiment upon ideas, the acceptability of which is dubious to the community, is costly. Rather than increasing the turnover of a commodity, this increases the store burden, and the means of diminution of capital.

Sales Promotion as to Store Analysis.—The analysis of sales promotion must receive its full complement of the elements mentioned along with statistics established by the store. The analysis should be made by departments and treated individually and not as a whole. It is not sufficient to set up a store's own statistics of its departments. Those of its competitors become equally important. Perhaps no organization for commercial trade is so qualified to ascertain its competitor's statistical information as that of the department store or specialty shop. The elements to receive particular attention are those of the number of people visiting departments, from 12 o'clock noon until 4 P. M., not only of its own store but of its competitors.

In heavy departments such as coats, suits, dresses, furniture, etc., the number of pieces carried in stock, compared with that of competitors, should be known daily. To obtain this is not difficult under present day shopping customs. The difficulty can only arise where exclusive styles are carried in stock. In such cases, trade sales promotion takes on an entirely different aspect. The quantity of stock carried on for trade generally reflects the demand for a department's merchandise. To know a competitor's stock quantity, at least weekly, is of intrinsic value. The prices of the merchandise carried on in stock are, to a certain degree, known to competing stores, through advertising and store shoppers. But this is not usually efficiently pursued. The information the shopper should obtain must be as complete as possible, and must be ascertained with cleverness. A further assistance in setting up statistics for comparative purposes and for knowing the extent of competition to augment other knowledge, is the number of coworkers employed in the different departments. A buyer or merchandise manager can very readily approximate the extent of a department's sales by the number of sales help in a department and the prices of the various stocks,

especially if the additional information previously mentioned is at hand.

Sales Promotion as to Store Analysis.—A further augmentation to competitor's statistics is the space daily occupied by departments in the various daily newspapers. Perhaps the reader may contend that the foregoing subject of sales promotion is included within the meaning of a secret agent procedure. If so, the author desires to have such thoughts perish. It is again necessary to repeat that knowledge is power, that competition is most welcome in any community, but that to meet competition and promote expansion, a more comprehensive method of paving the way in obtaining the objective that knowledge of every source could not be found. In this the knowledge obtained must receive the full complement of merchandising.

In every undertaking of sales promotion, the public must be considered in every move that covers not alone the store's established patronage, but the entire community. The public buys what it pleases, and the store must adapt itself to the class its policy caters to.

The analysis of the store's own shortcomings in sales promotion requires constructiveness from the individual sales clerks. To exemplify this, there was a store whose shirt waist department's annual sales were about $400,000, that did not come up to the allotted quota. That is, the department was expected to do $500,000, and it ran short $100,000. A complete analysis was made for the year in the following manner:

Each coworker's sales were enumerated by sales checks—that is, the number of sales effected weekly and the value they represented in dollars. A monthly analysis in addition was made on the following outline:

Co-worker	No. of sales effected	Value in dollars	Prices of Waists Sold						
			2.00	2.50	3.00	3.50	4.00	5.00	etc.

The results of analysis demonstrated that certain co-workers whose amounts ran high in dollars, sold the higher priced waists, while others sold in greater quantity but in lesser amounts in dollars. This clearly demonstrated that certain clerks seemed nonchalant to the trade requiring the cheaper grade of waists, and others were unable to meet the ability to effect sales in the better grade.

Education along the lines necessary to overcome the indifference of the one and to increase the ability of the other became a factor, and the necessary procedure to put the education in effect followed.

CHAPTER XI

PROFIT AND LOSS

Profit and Loss Defined.— The income of an organization may be segregated into three divisions:

The first is the income derived from the product in which the organization carries on trade.

The second income, that derived through financial transactions.

The third, that derived through extraordinary procedures.

Defining the first, income from commodities carried on in trade would be the proceeds realized from the sale of such stocks through departments, selling agents, or individuals.

Financial income would be defined as profits accruing through the financial transactions of the organizations.

Extraordinary income, where incomes are determined from transactions entirely foreign to those in which the organization has an objective of obtaining profits through trade.

This income through the sale of stocks carried on in trade of the department, is divided into three circumstances. These are from:

Cash transactions.
Charge transactions.
C. O. D. transactions.

Charge transactions mean transactions where charge accounts, better known as accounts receivable accounts, are carried on.

Cash Sales.— It is necessary to segregate the various sales of the department store or any retail establishment in

order that the audits may be controlled properly and in order that the available cash may be known at any future date in order to meet obligations, especially where the organization has reached such proportions that a budget system is necessary in order to meet every requirement. In conjunction with this, a classification of the store's trade with the setting up of statistics necessary for the better management, is available. Every department store man is very much interested in knowing the cash receipts for the day, week, month or year, and the percentage of cash, C. O. D. or charges represented in the day's sales.

It is customary in beginning the Profit and Loss statement to record at its beginning the sales, or the income from which the burden will be deducted. This is not altered in the department store statement with the exception that the sales are detailed.

The first item appearing on the Profit and Loss statement is cash sales. This represents the gross receipts in cash from merchandise sold, whether it be a cash transaction or cash which represents a part payment.

Charge Sales.— The next item in order is charge sales. The amount representing the sales for charge accounts will be the gross amount of the actual charge sales effected throughout the entire establishment. These refer to Accounts Receivable. They will represent actual sales which have been passed upon by the credit department and controlled through the credit office in so far as credit limits and collections are concerned.

C. O. D. Sales.— All sales for C O. D. transactions, whether the source is from a part payment, a will call or a C. O. D. transfer check — regardless of what the source has been, the fact that the merchandise was not paid for until delivery at a later date than the one when the sale actually occurred — makes it necessary that the transaction go under the caption of C. O. D. sales. These C. O. D. sales

are the third of the source income, or circumstances of effected sales.

Total Gross Sales.— Perhaps it may not be necessary to enter into discussion of the various methods in which a profit and loss statement is set up. However, there are elements entering into setting up a profit and loss statement of a department store that are unlike those of other than retail businesses. After having segregated the divisions of the gross sales, the ascertaining total is next in order. The percentage should be set alongside of each division; the total of which will equal 100 per cent. To be exact, 100 per cent would be an impossibility. It will, however, represent .9999, etc. The total gross sales divided into each division of sale will give as a quotient the percentage of the total gross sales.

Sales Returns.— Many organizations will set up a profit and loss statement showing the sales as a net amount. The department stores vary so extensively in this regard that the amount of merchandise returned of any of the three divisions is as important as setting up the sales themselves. Statistics show that there is quite a variation in the difference of returns, depending upon the classification of sales. This will be shown in the following chronological order of returns.

Cash Returns.— Cash returns mean returns of merchandise for which cash credits have been issued or cash refunds have been made, because of the customer's dissatisfaction with the merchandise. Dissatisfaction may not always be the case, but from the department store point of view, it is seldom the real reason. The feminine sudden inspiration may determine upon the purchase of an article and the determination subsides when that person reaches her domicile. Fortunately, the change of mind is here less than in any other transaction. The statistical percentage of the cash returns on all transactions average 6 per cent for the year.

It is a known fact in retailing that cash transactions are very small, though 6 per cent on a large volume of business amounts to a considerable sum. Still, when a comparison is made with the returns of other classifications of sales, it is, comparatively speaking, a small item. The knowledge of the percentage of returns under dollars and cents is also necessary in order that the extra cost to the delivery department may be determined. This makes it necessary, in setting up the Profit and Loss statement, to segregate the classification of sales as well as the classification of returns. The percentage is obtained by dividing the total of designated divisional sales into the divisional return, giving as a quotient the percentage. The total returns are divided by the gross sales to obtain the total percentage of returns.

Charge Credits.—Following cash credits, the next in order are the charge credits, which comprise credits for merchandise returned, from charge accounts or from allowances for claims. This form of credit is very costly for the reason that the charge account will have certain merchandise sent to the home and, after permitting it to remain several days and sometimes several weeks, a claim will be made or the merchandise returned. During the years 1916-1917-1918, strong efforts have been made by department stores throughout the country to eliminate the return evil, with the result that many stores have adopted certain regulations regarding the acceptance of returns, to the extent that any merchandise purchased on a charge or otherwise, unless claim is made or returned within three, five or seven days, is not acceptable. Also apparel other than apparel known as outside apparel is not accepted as a return under any conditions. The general excuse given by stores for the non-acceptance of merchandise is the sanitary conditions that prevent the store from making the credit or the exchange; and there are even laws in various

cities that prevent a store from making exchanges of such apparel, whether for men, women or children.

The average return of charge accounts varies from 12 per cent to 16 per cent, depending upon the location of the city, the percentage being figured of return charges on charge sales.

C. O. D. Returns.— Returns of merchandise, regardless of the nature of the business, are at best an evil. In applying the term " evil," which is a characteristic application by retail men for returned merchandise, the word is used to apply to the hard usage through which the merchandise is put and the deterioration in value of stocks after they make the circuit from the store to the customer and back again.

C. O. D.'s are segregated into two kinds:

One is a part paid C. O. D. which refers to those C. O. D.'s on which a deposit has been made by the customer.

The second is a straight C. O. D. on which no deposit has been made.

C. O. D. sales have taken on the same aspect as charge sales to the extent that the retail merchants throughout the country are making every effort to diminish the C. O. D. returns by requesting a deposit on any merchandise purchased under terms of C. O. D. Unless a deposit to equal the proportion of the amount of the sale is made, the stores will not make a delivery.

There was a time when a department store claimed that delivery expense was either 3c, 4c or 5c a package. A store would consider itself quite fortunate, under present conditions, if the cost per package was 12c. Still the author ventures to say that there are some large department stores in the country whose cost per package is no less than 25c, and others as high as 35c, and perhaps more.

The necessary procedure can readily be understood to which a store finds itself put to take in order to prevent additional expenses from merchandise purchased and then returned with no adequate excuse for such return. A woman will enter a store and, after putting the clerk to a considerable amount of trouble and annoyance in showing the merchandise, the prospective customer will think she is taking compassion upon the clerk by telling her to send the merchandise to her home C. O. D. When the delivery man drives up to the door he receives an invitation to take the merchandise back with a D. W. (don't want) alongside of the customer's name on the delivery sheet. This is perhaps one of the reasons, and the most common one, why the C. O. D. sales are so heavy. The change of mind is more pronounced on a C. O. D. sale than it is on any other classification of sales. Statistics show that the average returns of C. O. D.'s range from 20 per cent to 35 per cent of the sales.

It may be argued that one of the reasons of the continuation of the C. O. D. sales is that if a store runs a $1,000,000 C. O. D. sales, 35 per cent of which we will say is the maximum average of returns for the year, the store still would have a net C. O. D. business of $650,000. Whether or not the profits gained from the $650,000 are sufficient to cover the expenses, depreciation and time of the sales clerk, delivery department and auditing department is a subject for the individual store to determine for themselves. However, the author recommends C. O. D. sales on account of their psychological effect on customers and their relations to good will.

Total Returns.— Summarizing the returns of the various classifications, the total is deducted from the total of gross sales in order to obtain the net sales for the entire establishment. The total of returns is based upon the total of the gross sales, in order to obtain the percentage of

returns without any discrimination. The average returns are based on 10 per cent, though they may be as low as 8 per cent and as high as 12 per cent or 13 per cent.

A mail order house using a considerable amount of the elements of accounting the same as those of the department store, shows that returns will average about 12 per cent. This demonstrates that whether the merchandise is bought through mail or in person there is a certain amount of returns to contend with. Provision for such returns must be set up in every undertaking in the management of a store. Unless provision is made for the care of the returns, it will be found that profits will be absorbed through this channel by indirect cost or blind costs.

Net Sales.— In order that profits may be determined the net sales is the basis of calculations. Having discussed the gross sales and the returns, total returns being deducted from the total gross sales, the net sales will be determined. In the retail establishment, where returns of merchandise are perhaps larger than any other known business, good accounting makes it necessary that all details regarding sales should be shown on the profit and loss statement. A ready comparison between the net sales and the gross sales is one of the important figures which the management or the owner of a department store will look forward to with such anxiety, for the balance sheet must be subordinate to this figure.

By mentioning balance sheet as a subordination, the retail merchant knows just how he stands in his affairs. Whether he is worth a few dollars more or less does not enter into his mind. What he wants to know is how his business is going, and the balance sheet does not show this from a merchandising point of view. Accountants may argue that the balance sheet is a necessity in order to know the conditions of one's business.

The author, on his own knowledge, must admit this, and

cannot refute any discussion along this line. But the merchant operating a department store or retail establishment is interested in the fluctuations of his business from the merchandising point of view. It is safe to say that 90 per cent of the merchants operating a retail establishment care very little regarding the balance sheet, and in fact a great percentage of such merchants do not even know what an accountant is talking about when he refers to the word balance sheet. If the term financial statement is mentioned it is understood, but the operating methods of the retail establishment superseded by merchandising are what fill 99 per cent of the retailer's time.

Having arrived at the net sales for the period, the next procedure is to ascertain exactly what the net sales cost.

Cost of Sales.— In order to ascertain the cost of sales for a trading statement or a Profit and Loss statement, there are three elements to be taken into consideration.

The first will be that of inventory beginning of the period. The period may be either the beginning of the fiscal year or the beginning of the month. Retail stores control their inventories at retail, though a very great percentage still retain the old method of controlling their stocks at cost. Where the inventory at the beginning is set up at retail, its ledger value should be reduced to cost.

To this cost of inventory the amount of merchandise, purchased for the period for which the trading statement is set up, should be added. From the total of the inventory beginning, plus the merchandise purchases, the inventory on hand, better known as inventory ending at the particular period at which the statement is being set up, should be deducted. This results in showing the amount of merchandise used in order to produce the net sales at the beginning of the profit and loss statement. Consequently, the amount of merchandise used at cost in order to affect the net sales becomes the cost of

the merchandise for the net sales that have been affected.

Gross Profits.— The gross profits take on a considerable amount of importance in merchandising, not alone for the amount of money that they represent in dollars and cents, but for the mark up that they represent on the merchandise. The merchandising of a department store entails a considerable number of details. The foremost, however, of all these details is the mark up. Merchandise that is sold must carry with it a certain profit, though it is a very common occurrence for a department store to buy quantities of merchandise for various departments, and mark them at cost, and very often, indeed, below cost. To the accountant it seems ridiculous, to the merchant it appears as good bait to catch fish. In fact, department store merchants, in order to merchandise properly, require that the public should get something for nothing sometimes, as well as something for a valuable consideration.

A department is charged with a certain percentage of overhead. It is therefore necessary for the department to produce a certain profit equivalent to this percentage, sufficient to leave a margin to cover the difference between the overhead and the net percentage of profit required. To exemplify this, a buyer is engaged to purchase certain merchandise, and as manager of that department, he will be expected at the beginning of the season to show a profit of 40 per cent. The buyer will be permitted to take certain mark downs, but the well managed store will insist that the buyer and department manager should close his season's business with a stipulated percentage for his goods of 33 per cent. This 33 per cent represents the mark up for the gross profits. It is seen from this point of view that the gross sales are the result of the mark up in merchandising.

A buyer or department manager cannot be held responsible for the net profits. They can only be expected to

show a gross profit on merchandising. They are not responsible when it comes to the operating burden. In fact, they are not required, nor are they engaged, to control operating burden. Their position is to buy and sell, with no interest, whatever, in the operating burden. Such burden is controlled through the general management. It therefore does not fall to the lot of the buyer to show net profits, but the gross profits are closely watched, not alone when a periodic Profit and Loss statement is set up either monthly or closing the year, but daily, for every movement in the merchandising. The mark up is carefully scrutinized. The cost of sales deducted from the net sales will give us the remainder of gross profits for the period. The gross profits, divided by the net sales, will give as a quotient the percentage of gross profit.

Operating Burden — *Administration.*— The operating burden of a department store is divided into nine divisions, known as Administrative, Buying, Advertising, Selling, Receiving, Occupancy, Delivery, Indirect Burden and Workrooms. Each division will be treated separately.

The administrative burden of any organization relates to expenditures necessary to operate the business, which a single unit does not take on a direct charge, and which are promulgated through executive offices. A department store consists of a number of departments shading into the various accounts of merchandising. Each department is considered as if it were an individual store. Each department is but a unit of the whole undertaking. The administrative burden is distributed monthly to the various units by prorating on sales, on purchases, on sales checks issued by the department monthly, and on the number of packages delivered. In fact, conditions at each store are such that every element of the store's management must be taken into consideration prior to establishing an equitable basis for distributing the burden to the various units. The dis-

tribution is based on the element of expense to the division of burden it may refer to.

Executive Salary.— Salaries paid to officers of the corporation who are active, and executives who participate in the general management of the organization, are included under this heading. These salaries usually are for general manager, business manager, superintendent, and administrative executives. These receive their distribution as a charge to the burden of the various departments on the basis of sales. That is, the burden is pro-rated to the various departments on net sales per month for each department of the store.

General Office Salary.— The general office is the central station of the entire store system. Every branch of accounting of the house system, in fact, the entire network of the store's management, is centralized in this office. It will be divided into such offices as the general cashier, paymaster's office, statistical department, auditing department, billing department (this department conducts accounts receivable ledger, rendering bills and statements for charge accounts), accounts payable department, correspondence bureau, mailing department, general accounting and tracing bureau.

The individual merchandising department heretofore mentioned is a single unit of the entire undertaking and generally does not carry its own office to care of the accounting of the department. There are, however, organizations where the volume of business may run into proportions of upward to $25,000,000 per annum, where it is necessary for each buyer to have a set of merchandising clerks to control the individual stocks. That is a separate problem in itself which will be treated under Merchandising. However, as to general accounting, the general office controls this feature of the store's operations.

This item of burden is pro-rated to the various depart-

ments on the basis of net sales. It might be appropriate at this time to explain pro-rating of net sales. For example, if the store does a monthly business of $1,000,000 and a department has done a business of $100,000, the department doing the $100,000 business in pro-rating the net sales should be charged with 10 per cent of such burden distribution.

General Office Supplies.— Office supples usually run into very large proportions in a department store, even to a surprising degree. Still, every consideration for economy should not be overlooked in using such supplies, which usually consist of stationery, printing, books, and tabulation sheets. All supplies issued, whether they be for the general office or any other department, should be issued from the supply department through a requisition, in order that the supply inventory may be credited with supplies which are removed from the supply department. Distribution for this is similar to general office salary. All supplies that are issued to the administrative body receive similar distribution.

Credit Department Salary and Burden.— Like all business enterprises which sell merchandise on credit, the credit department is established in order to protect the circulating capital outstanding. Every store gives the charge accounts the same procedure for extending credit limits and collections as any manufacturer, wholesaler, jobber or importer does. It is necessary that a complete record of each account be maintained in order that reference may be made to the responsibilities of each account. The cost of maintaining such a department is usually more than most organizations would care to admit. Very often faulty accounting is misleading to the extent that improper accounting cannot be set up for statistical purposes in determining the exact cost of conducting charge accounts. Impersonal accounts, segregating overhead for the credit

department, would be: Salary, stationery, subscriptions to mercantile agencies, credit investigating, maintenance of O. K.ing system, collections, and legal fees. All this burden is administrative, since it has no direct bearing on any one department, and since all departments of the store receive the same attention without any discrimination. The distribution of the credit department cost which is applicable to each department in the store, must be on the charge sales of each department.

Legal Expense.— It can be said safely that all matters involving litigation are best settled out of court. But there are occasions where employing legal procedure is unavoidable. All legal expenses come under the head of administrative, unless the legal procedure happens to apply to a department direct. If this occurs, the distribution for such legal procedure can only be applied to the merchandising department to which the circumstances relate. Where legal expense is purely administrative, it should be prorated on the sales.

Charity Account.— Almost every organization sets aside a certain sum of money yearly to be given to charity. This is perhaps done more extensively in a department store than in any other organization. For the store deals principally with women, and the women workers of the charitable organizations are always making it a point to make certain requests for charitable donations from the store with which they trade. Refusal very often is out of the question. It behooves the management to be very careful before making a final disposition of any request put to them for charity.

This is a direct charge to administrative burden, since no special department of the store is directly responsible for the charitable donation. Equitable distribution of such burden is necessary. Should there be any benefit derived from the charitable donation, it would be of equal benefit

to all departments. Some stores, in making their distribution for advertising, will charge charity to advertising. Such action could not be logically sustained, as charity is not given for advertising purposes. Any benefit derived by the store in the form of sales, as an after effect of charitable donation, would be reciprocity rather than selling effected through advertising. Charity is charged to each department by pro-rating on the net sales. Recent rulings do not permit deductions for charities by corporations in income tax returns, though individuals are permitted this deduction.

Information and Investigation.— This is rather a peculiar caption and, for matters of accounting, it certainly does not convey any meaning. Still, it would seem rather peculiar should a department store not have an account of this kind. The store employing executives to whom extensive privileges are given, from a managerial viewpoint, finds it necessary to investigate the character and knowledge of each applicant so extensively as to make the directors or owners of the organization reasonably sure that the person whom they are going to appoint will give satisfactory service. Mistakes are very dangerous, not to say costly. Considerable expense is attached to investigating in order to determine upon the appointment of such executives.

Then, again, the store will employ detectives, better known as investigators, to keep watch over persons addicted to purloining. How extensively these persons work is very surprising. There is undoubtedly at least one case a day in most large stores and an equal number is occasionally found in smaller ones. That such conditions exist is known to the management, and every precaution must be taken for protection.

This burden, like all other administrative burdens, is not a direct charge to any one department. Therefore it must

be distributed equitably. This is done by pro-rating on net sales.

Traveling Expenses.— Executives occasionally travel to various cities in order to investigate the systems and management of other institutions, in order that information may be gathered that may be of advantage to their own organization. Further than this, traveling may be amongst their creditors, investigating market conditions as to merchandise, or accompanying buyers for diverse reasons. In fact, traveling may be on a large scope in order that the organization may be benefited directly by these trips. This is administrative expense and is pro-rated to the various departments on the net sales.

Policy Account.— This account is very often abused by its use as an outlet for anything except what the store stands for. Every organization, at its inception, determines upon a certain policy to pursue. It is assumed that such policy is for the best interest of the concern. With a department store there is but one policy and that is "customer first."

It is readily admitted that during the last half century women have become more interested in commercial affairs and are now holding an important post in the world of commerce. With all that, the percentage of women, who are educated along commercial lines, in order that they may thoroughly understand the position in which a merchant is placed, either in production or distribution of merchandise, is indeed very small. The natural result is that the women, who are the principal purchasers in a department store, will insist upon the most unreasonable demands. They will make complaints that would be astonishing to those who are not acquainted with retail methods of trade. And still, with all that, it must be remembered that "Customer is first," and, whether she is right or unreasonably wrong, she is still right, and must be so treated.

She must receive preference in every transaction. This is paramount. There must be no deviation from this. To the mind well trained in commercial affairs, other than retailing, it seems preposterous, and as if such preference to customer first means either a limited business or closing the front doors. Referring again to the account known as policy, it will often occur that allowances are being made on certain expenditures, or even losses are sustained, by giving preference to the customer. In these cases, the loss or expenditure should be charged to the policy account.

The expenditure may arise by allowing a customer cash for any claim that would directly interfere with the good will of the establishment. Or it may be due to the return of merchandise after it has been worn a long time; in fact, to any number of reasons (and some of them are certainly marvelous in their conception). Disposition of these cases is generally put to the Superintendent of the establishment. While he endeavors to make the best concession and tries to reason as much as he may dare to, he will always remember that persistency on the part of the customer will mean greater expenditure.

Federal Taxes.— There are several kinds of taxes payable to the Federal Government. These come in the form of Income Tax, Capital Tax, and revenue, in its relation to negotiable instruments, for which the department store comes into direct contact, and such taxes as may be enacted by the Federal government.

The greatest of these is the income tax. While it is difficult to determine at the beginning of the year or during the current year what the volume of taxes may be, still every merchant will know about what his profits will approximate on the volume of business expected for the year. It would be quite an unfair distribution to allow federal taxes to remain open until the profits of the fiscal year have been determined, and then to charge the various departments and the surplus with one particular entry.

It is necessary, therefore, to set up a reserve for federal tax, doing so monthly, and charging the overhead with the approximated monthly reserve, and crediting the reserve for federal taxes. The Law does not permit taxes to be deducted as part of the store's burden. But the Law does permit and requires the amount of taxes paid for the current year to be charged against the surplus of that year. In carrying over the surplus to the following year, which is to be added to the capital, providing the balance of such surplus has not been distributed as dividends, setting up the reserve and charging monthly the approximated income — which can readily be determined through the monthly profit and loss statement — does not involve hardship at the end of the fiscal year in meeting the obligations of the Federal government.

A step further in this direction, which at the same time assists the financial management of an organization, would be upon determining the amount of the income tax monthly to withdraw such funds from the business and to invest them in bonds or other tangible property readily converted into cash. Thus interest is enabled to accrue on the investment for taxes which, though payable after the end of the fiscal year, should be treated as if it were payable monthly.

There are months in the retail business which must, of necessity, show a loss. During these instances it is up to the management to use discretion. Most of all, when their profits are being made, it is incumbent upon the management to set up a monthly reserve for income tax and for Federal capital tax. A reserve should be set up monthly debiting its approximated monthly proportion to burden and crediting reserve for Federal tax; reversing all Federal tax reserves and the closing of the fiscal year.

Revenue Stamps.— Revenue stamp tax is a tax on negotiable instruments. While it may be treated as an

additional cost to interest, it is not a logical charge for the reason that the revenue stamp attached to the note represents a Federal tax and not interest. For this cause, a reserve is not necessary, but the tax paid is a direct charge to burden, allowable in the deductions of overhead in computing income tax.

State Tax.— In most states, a state capital tax is placed on all corporations. This, like the reserve for Federal taxes, should be set up in accordance with prior taxes, which are usually based on the working capital of the organization. In New York state, organizations should be particular in their reserve for state taxes and consider it in the same manner as the Federal tax. No reversing of the entries is necessary at closing, since the state tax is deductible in computing the Federal tax.

Municipal Tax.— These taxes may be many, such as water rent, land tax, trade license. Such taxes have a tendency to be based on the premises of an establishment. Where they are so based upon the premises in which the organization is carrying on trade, such taxes are an additional cost for occupying the premises, and are chargeable to occupancy. Municipal tax, principally referred to in this caption, is that of a mercantile license to carry on trade. Some municipalities will charge as low as a few dollars for these licenses. Other cities have none. Some cities make their charge on the volume of business transacted, so that the cost of the license for an organization doing a business of $5,000,000 may be as high as $4,000 or $5,000, graduated in accordance with the greater volume transacted. Thus, it is found necessary to set up a reserve monthly to meet the municipal tax at the period.

It is customary in all municipalities to render tax bills during the first month beginning with the year. In setting up this reserve, monthly approximations based on previous years' transactions would be the debiting of adminis-

trative expense and a credit to reserve for municipal tax. When the tax is paid, reserve will receive its debit.

Educational Welfare.—All successful and progressive retail organizations find education necessary, in order to become a factor in a community. In order to promote their sales, they must educate, not only their executives along the lines that will make them more valuable to the organization, but their buying staff, their selling help, as well as all the help connected with the various divisions of the organization. This education may be in the form of lectures by outsiders, school rooms where special instructors are employed, traveling from one city to another, visiting various stores to obtain knowledge and to ascertain how the various elements connected with retailing are conducted, in order that the coworkers' knowledge may be enhanced so that their ultimate value will mean a greater benefit to the store organization.

All this requires the expenditure of certain funds. Such expense should be charged directly to an account known as "Educational Welfare."

Memberships.—Membership in an association, which is in the form of dues paid to such association, that may assist the administrative body of the organization, is a direct administrative expense. The associations, to which membership cost would be applicable, are usually merchant's association, credit men's association, advertising or press clubs, or other societies through membership in which benefit is derived by the store.

Subscriptions and Periodicals.—There are always a number of publications, such as trade journals, business magazines and business books which will assist the various buyers and executives either in merchandising or management. Usually the greatest item of these expenses is subscriptions for trade journals. While they may not be interpreted as educational welfare, they cannot be a direct

charge to buying expense. It is one of the many expenses of a retail establishment which can be well dispensed with. But modernization demands that the buyers and executives of a retail establishment be constantly in touch with all market conditions and changes. These are usually written up in trade journals, and by obtaining knowledge through such publications, the store becomes a beneficiary.

Generally, a store will make provision for expending a stipulated amount each year for such publications. It is, therefore, desirable that a separate account be kept, not only setting up expenditures for subscriptions and publications, but also having them enumerated under this account for further reference.

Planning Department.— Coördinating all systems as if they were one, augmenting a spirit of improvement for better presentation of merchandise, store layout and house system come within the scope of the planning department.

Problems are here analyzed to the most minute detail and carefully studied for perfect solution, a definite decision is made prior to placing it into execution, rather than by means of the old method of haphazard guess or imaginative thoughts of " it will do better this way." Thoughts that are phantasmagorial cannot impulsively be put into effect. The planning department should be headed by a man with thorough knowledge of merchandise, sales promotion and department store accounting; a rare combination, but a most essential one for concrete results. In support of such an executive, a committee of the store's ablest coworkers should form a board to delve into planning problems and conclude a perfect solution for them.

A plan to move a department to another location is not a simple matter. The owner of a store or a general manager alone counts for naught in determining how, where and when it should be done, regardless of what his individual opinion may be. The question is placed in the hands of

the planning department, which submits a detailed written report of the chief executive of the organization. The approval or return of his plan to the planning department, with recommendations for other considerations, is the correct procedure. The cost and method of procedure should be incorporated in the report. The moving of tables, racks or fixtures, no matter how trivial, comes within its scope.

A well managed planning department will have its own office with blue prints of the entire store layout. These cover merchandising departments, receiving, delivery and offices, store organization blue prints and the systems of operation. To prevent costly errors, it is a cardinal point in planning to picture the organization.

The expense of maintaining this department is an administrative burden and is pro-rated on the basis of sales.

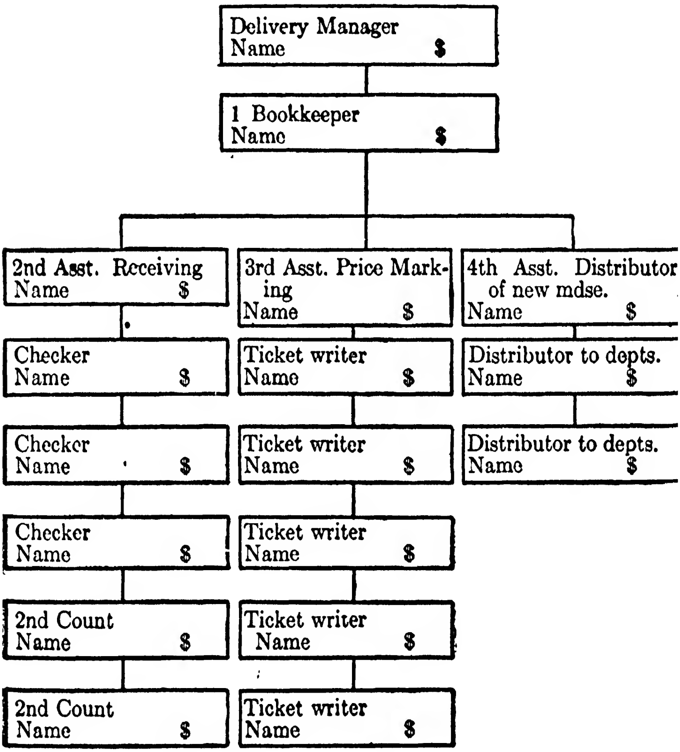
Employment Department.—In most stores help is employed through the superintendent's office. The scope of this office is so varied as not to justify the importance attached to the records governing the help question when help is engaged here.

The superintendent's office should be sub-divided into that of the store superintendent and that of the employment superintendent. The latter should be headed by an executive qualified in the selection of help for various functions. The necessary executive requisites are to know the duties, ability and requirements for every position in the store, the salaries paid by other stores for similar positions, and to keep the help wanted advertising down to a minimum.

The employment department must be correlated to the planning director or planning department and the store superintendent. The chart showing the relative position of each coworker, from the minor position to that of the manager of the department, should be readily accessible in the employment department. A chart or blue print of

every department must be in this offiec. In the allotted space denoting the position, the coworker's name should appear and the salary paid for his services.

PLAN FOR RECEIVING DEPARTMENT



From the receiving department plan, it will be seen that there is a complete layout of all coworkers employed in this department to perform a special function, though assistance may be given by it to other functional operations. When a position is open, no name will appear in the

allotted space on the chart. This is accomplished by notifying the employment superintendent prior to discharging a coworker. Or, where a resignation is accepted, the name in the allotted oblong is eradicated. By charts of this description, for both selling and non-selling departments, a control of help is established.

Applicants for positions must be requested to fill in application blanks. The best forms obtainable for such applications can be set up in conjunction with store requirements, by adopting the questionnaires used by bonding companies in applying for a bond. The application must be completed before an interview with the employment superintendent can be obtained. In the event of employments being granted, the newly employed coworker receives instructions from the store school, which he must attend. The paymaster's office is notified, his name is placed on the proper departmental chart, and his application is placed on the file of "active coworkers."

Where an application has been rejected, such application should be placed in an open list, filed by positions. These applicants are possible candidates for future openings, their names being alphabetically arranged.

In addition to coworkers' applications being placed in active service file, a record should be kept of every coworker identifying the coworker, with his vocational ability. It may be that a stenographer may also be a good bookkeeper, saleswoman or artist. If an opening occurs for a better position, the selection should be made from the rank and file rather than by referring to the application file or newspaper help wanted.

The employment office should maintain a coworker's record of the number of times tardy, late or absent from business, characteristics as to disposition, dress and ambition. Reports as to personality are obtained through reports of department managers and interval inspections

by the superintendent's office. An organization may also have a personal director, or a department may be maintained which assumes supervision of the store personnel. This director must be correlated to the employment office, and must coördinate with the store superintendent.

Educational Department.— Not until the last decade have department stores taken the coworker in hand, developing him so as to become a part of the store under real organization. The prime reason for this move was instituted by the retail help situation, especially in the selling element of the store.

The educational department, established with school rooms, and, for its curriculum salesmanship, house system, discipline, personality, speech, etiquette and general education, subordinated only by enthusiasm, performs a twofold service. It indirectly increases the profits of the organization through the creation of efficiency and coöperation and assists the coworker towards better production for a greater remuneration. The employment superintendent is instructed to give preference to high school graduates for any situation. This class of help is more easily trained for various capacities, and has been found to give better results than the training of broken down salesmen and clerks does.

The educational director should possess exceptional qualifications. He cannot assume the responsibilities of the department until he himself has made a careful study of the entire establishment and accounting system. He must possess as well a thorough knowledge of the store policy and methods of merchandising.

The school room should be planned in the same manner as any of the public school houses. Its library should be complete and the circulation of its books on the same principle as those of public libraries.

The schooling embraces various courses of study. Train-

ing should be complete, subject to tests and examinations. It includes text-books for theory, and actual demonstrations for practice to complete the teachings. Store schooling should be compulsory and a condition of employment. Promotions should be made by examinations, testing ability for adequacy in performing new functions.

The expenditures for this department depend upon the size of the store. All expenditures are segregated for a monthly detailed report. The allocation of this burden should be on the basis of sales.

CHAPTER XII

BURDEN

Occupancy.— In premises that are rented from landowners, it has been the custom of accountants to set up a Profit and Loss statement, itemizing the rent paid for the use of the premises as rent paid. Thus the item becomes a fixed overhead charge to operations. The correctness of this is acceded, inasmuch as rent is defined as payment for the use of property. A departure from the usual form of setting up rent is the cost of making a property a tenancy for an organization to conduct business. The actual rent paid to the owners becomes but a part cost to the occupant. The up-keep of the premises must of necessity be an added cost for the occupancy of the premises for the proper conduct of retailing. The segregation of occupancy cost gives a better analysis of the store burden.

Direct Rent.— In the analysis of occupancy, where the property is rented from the owner, the first element of cost is the rent paid monthly in agreement with the owner for the use of the premises. This element of cost is designated as a direct rent or prime cost. No merchant will occupy another's property unless an agreement in the form of a lease is entered into. Certain covenants of the lease may make the tenant assume the payment of water rents, taxes, replenishment of the property, and responsibility for its general condition — thereby increasing the tenant's cost for the occupancy of the premises.

Elevator Expense.— A retailing establishment occupying a building with many floors finds itself in a position to equalize each floor as a drawing power to be visited by its patrons. To equalize each floor, every possible means is

resorted to to make it accessible. To this end escalators are erected and capacious lifts are installed to make ascension to upper floors inviting. The mechanical upkeep of these lifts, liability insurance and salaries paid to operators incurs an additional cost for the premises and becomes an indirect charge to occupancy.

Porters and Maids.— The services of porters and maids in its relation to additional cost of occupancy brings forth a thought of service to patrons. A store may set up an account, charging the service account with all expenditures for service to patrons. Amongst these may be maids. A distinction should be made between service to patrons and janitor service. It is necessary to keep the premises spick and span. The porter's functions take on greater proportion and become quite an organization in themselves, as the store becomes larger and the occupied space is enlarged. The salaries paid for the employment of porters may be viewed as janitor service and logically construed as an additional cost to occupancy. They are distributed to the various departments on the same basis as direct rent.

Porter's and Maid's Supplies.— The cleanliness of the store through remuneration for services rendered by porters is only a part of the cost of up-keep. The supplies necessary to perform the functions of store janitors cannot be charged to any account but that to which they bear a strict relationship. These supplies are segregated from all other supplies, charged to departments using diverse needs, and become an additional element to occupancy cost.

Light.— Whether a store generates its own electric current or buys its use from outside companies, it must be segregated into the divisions of occupancy and advertising window display. Very few stores, indeed, are fortunate enough to occupy premises where a sufficient amount of daylight can be used to eliminate the use of artificial light. It logically follows, in order to occupy the premises to con-

duct business, that artificial light is a necessity. This necessity becomes an additional cost for occupancy.

Current that is used to display merchandise in show windows is an advertising feature. It is chargeable to advertising under window display costs. All lighting fixtures, incandescent lamps, arc lamps, wiring, electricians' salaries, gas, gas fixtures, globes, burners, are a further cost to light. Its distribution is based on the number of lamps burned in each department. Where separate meters are installed for floor sections, the cost is readily obtainable.

Heat.— Heat and power should be divided under two captions: Charging power used for light to the account set up for light cost, usually determined from switchboard readings of the lighting generator, and heat for the premises, to its own account, headed "Heat." Where the store is large enough to have a separate auxiliary department conducting its own power plant for light and steam, cost accounting methods become applicable. To determine the cost, the elements to be considered are fuel, labor, space, repair, equipment supplies, water tax, boiler insurance, and other insurances. Consumption of heat may be determined by an analysis of cost between the summer months with that of the winter months, allowances being made for extra use of window lights.

Where a store purchases its current for light and power, the heating cost is ascertained by setting up the cost of fuel, labor, repairs, water supplies and boiler insurance. When heat is necessary for the comfort of the coworkers and patrons an additional charge for occupancy occurs. Thus a cost additional to previous obtained occupancy cost is assimilated.

Water Rent.— The cost of water rent is in the form of taxes, levied by the municipality or, in some communities, by private owned corporations. It may well be termed supplies necessary for occupancy, or for generating power,

similar to fuel. Where spring water is purchased for the use of the coworkers or patrons, it cannot be charged to occupancy. A division is then set up and applied to coworkers' welfare or store service account, whichever the circumstance may be.

Amortization.— Defining amortization, its interpretation applies to periodic charges to operating expenses or charges to profits or income from paid commercial arrangements of contracts, bonds, leaseholds, premiums or discounts, buildings, machinery and equipment. There are occasions where a corporation may sell its bonds at a premium, that is, above their par value. Such excess should be shown on the balance sheet as a reserve for interest and periodically charged off over the period of the bond to adjust the interest reserve of the bond issue. This excess will be carried as a deferred credit until it is washed out. The reserve application will refer to bonds sold below par.

The amortization of leaseholds on property will cover the period of prepaid rentals. An organization will lease land upon which a structure will be erected, in which the organization will conduct its affairs. The leasehold on the land will cover a term of years, at the termination of which the lease may be renewed or the land returned to the owner in its original state and the structure demolished. Or the leasehold may require the lessee to relinquish, with or without a bonus, all improvements on the land to the lessor. In addition to this, the lessor may charge a monthly rental covering the life of the lease. The organization having erected a structure upon the land, will carry the cost of such structure as an asset upon its books. Should, for example, the improvements and structure value be $100,000, and the leasehold have a life of 20 years, with all rights and privileges to be relinquished without any consideration on the part of the lessor, the organization must pay to the lessor a yearly rental of $5,000 for ground rent (land

leasehold). The organization will make the monthly payments at the rate of $5,000 per annum, charging such payment as rent for occupying the premises. In addition thereto, 1/20 of the structure value, at its monthly proportion per annum, will be written off of the $100,000 outlay or will amortize the structure value, charging such amortization as additional rental, as a cost to operating burden. The same modus operandi is applicable to machinery or fixtures, and must not be confused with depreciation.

Amortization of contracts assumes its procedure from the covenants agreed upon. An illustration of this is found in quoting the incident of an automobile manufacturing corporation. A sales manager had a contract covering a period of five years to sell their chassis at a stipulated price.

Not only was he to receive a commission of 25 per cent for every chassis sold by him or his personally appointed agents, but also a commission of 25 per cent for every chassis sold by the company in the territory given to the sales manager by the corporation. At the expiration of the first year of the contract the sales manager had sold enough chassis to entitle him to $100,000 in commissions. The corporation decided upon its own method of representation in the territory and the sales manager agreed to cancel his contract for a consideration of $250,000, all commissions reverting to the corporation. The check having been paid to the sales manager, the entry in the General Ledger was as follows:

Dr. Mr. Sales manager's contract, $250,000.

In order to set up an accounting of whether or not the payment of $250,000 was a wise transaction, and if so, what profit and benefits the company gained by the purchase of the contract, it was decided that on all chassis sold in the territory of the contract the company was to charge itself

with the commission of 25 per cent it would under the covenants of the contract be obliged to pay the sales manager. In addition thereto, it deducted from the earned commission the expense necessary to effect sales, which expense would have to be such expense as the sales manager assumed out of his own pocket to effect such sales.

The substance of the entire transaction then was to amortize the payment of $250,000 by commissions earned. The excess of $250,000 was to show the additional profits earned by the corporation through the cancellation of the contract. The ledger accounts then follow:

Dr. Amortization of sales manager contract, $100,000.
Cr. Sales manager contract, $100,000.

This accounting, set up to show profits taken over by the corporation in the purchase of the sales manager contract for $250,000, covers orders in work-in-process for which commissions were payable.

Dr. Sales expense for contract taken over (this account receiving its debits from expenditures relating thereto from the cash records or other transactions).

In the calculations of all amortizations, allowances must be made for salvage.

Maintenance of Building.— In the proper application of expenditures for the maintenance of the building, where the store owns its own property, a distinction must be made between repairs and replacements or improvements. Repairs apply to general wear and tear or reconstruction of parts of the building that have become dangerous to use. The cost of such repairs are a direct charge to occupancy under the caption of maintenance of building. However, the replacement of certain parts in the form of reconstruction, of renovations that improve the building or add to the life of the building, are an additional cost to be charged

to the entire cost of the building. The maintenance account should show the details of all expenditures. Especially is this required in setting up schedules for income tax.

Depreciation of Building.— The United States Revenue Act, section 234, sub-section No. 7, defines depreciation as follows:

"A reasonable allowance for the exhaustion, wear and tear of property used in the trade or business, including a reasonable allowance for obsolescence."

A life of twenty years is usually estimated for the ordinary building occupied by a department store. Thus, a depreciation of 5 per cent on the amount paid for the building may be charged off as depreciation, and a reserve set up, to be known as "RESERVE FOR BUILDING DEPRECIATION."

The value to be taken into consideration is the actual money paid for the building, and not its market value. In fact, the market value of buildings should never appear upon the balance sheet of a statement, but in a footnote the market value may be stated.

The depreciation charged off at the rate of 5 per cent per annum, subdivided into twelve parts, becomes an additional cost to occupancy.

There are occasions where an organization becomes the lessee of a building for a number of years. It is obliged to make certain repairs to the building in order to make it suitable for business. In such instances, an equal distribution for the construction of the building should be set up by carrying as an asset the improvements made and by writing off periodically, as an additional cost to occupancy, moneys which represent the outlay for the improvements of the building. This is a very common occurrence, yet organizations have charged the cost for improvements to leaseholds during the period of one year, which is inconsistent with good accounting.

Watchmen Service.—Another item entering into the cost of occupancy is that of "Watchmen services." Under this heading come outside protection by the means of corporations formed for the purpose of patrol, the police department of the municipality, and such watchmen services as may be engaged by the store. All these become a part of the cost of occupancy.

A differentiation must be made between watchmen services in doorways where packages or articles come in or out of the building, and watchmen services for the protection of the building. Watchmen services denoting protection are to be charged to occupancy, whereas all other watchmen services are an indirect charge to operating burden, applicable to that particular department in which the watchmen service is rendered.

Distribution of Rent to Departments.—A fallacy in most accounting methods which, it is regrettable to say, is advocated by some accountants, is the distribution of rent on the basis of sales. How ridiculous this really is can be seen by comparing any department, whose merchandise is such that a considerable amount of floor space is required, with that of a department utilizing a very small space and doing a large volume of business. This distribution must of necessity produce an unequitable charge to departmental burden.

The volume of store space must be analyzed carefully. The basement store may be worth but 10 per cent of the total occupancy charge, or the main floor may be such that a 50 per cent rental charge of the entire occupancy burden is applicable to the floor.

The store in any community must decide its own value. The lowest cost is the basement store; the main floor is the highest charge, and the cost of the upper floor depends upon the merchandise and its value in the community.

The monthly value per square foot of space is to be de-

termined. The departments are measured under schedule. Space at a rate per square foot of space is chargeable to the floor for occupancy distributed.

The problem is solved as follows:

$$\frac{\text{Dept.}\cdot\text{(number of square ft.)}}{\text{Total floor space (sq. ft.)}} \times \frac{1}{\%\text{ of occupancy value}} \times \frac{\text{Month's occupancy cost}}{1} = \text{Department Occupancy}$$

If the floors are of extensive proportions, and the front part of the store represents a greater value than the rear of the floor, it should be divided into sections, showing the percentage value of each section of the allotted percentage value of the floor occupancy cost.

It is recommendatory to employ cost accounting segregations and burden applications to departmental occupancy distribution, when space takes on extensive proportions and where more than the ordinary number of departments are employed.

Receiving.— The receiving department is not only a department that means a section of the building in which merchandise is received from vendors, from whom the store has made purchases. It is more than this. In this particular department another section is established in which all merchandise received is sent to a sub-department, known as a marking department.

This marking department is a subsidiary to the receiving room, where copies of all orders placed with manufacturers, wholesalers, jobbers and exporters are kept. From these orders and invoices, the marking department will mark all merchandise, giving the department number, manufacturer's number or style number, selling price, such markings on price tickets as may be consistent with the store's

policy, or the entire system in which an organization conducts its affairs, to conform with its merchandising records.

The number of coworkers in this marking department depends upon the volume of business conducted by the organization. The efficiency of the receiving department must not be abated in the least iota. Here, more than in any other section of the store, must efficiency be paramount. For the payment of all moneys is promulgated from this department. Its records must be such that any item marked for payment in the general office can readily be traced to the receiving department, to assure the authenticity of making a payment voucher covering either the expenditure for merchandise or burden.

Unlike that of the manufacturing organization, where freight and expressage become a part of the cost, a retail establishment will charge freight and express to receiving burden, and not add such expenditure to the cost of merchandise. The author will not for a moment argue that freight and express are not an additional cost to merchandise, but exception is taken to the application of this by buyers in marking the retail price of merchandise on the price paid for the commodity. The buyers, however, must keep in mind the percentage of burden charged to their departments for operations. It can readily be seen that in the busy store the cost of transportation is readily lost in the shuffle, and the buyer does not take cognizance of what the cost of transportation may be. The marking of the merchandise will take on a certain percentage. This percentage of mark up must give the profit to the department, cover the overhead, and allow for mark downs to close the season at a stipulated percentage of mark up.

It is conceded that an article whose prime cost is $20 and the transportation charges on which are $1, costs $21. To argue the matter further, the percentage of operating burden is 25 per cent. For example, exclusive of transpor-

tation charges, and should it be possible to figure operating burden on cost, 25 per cent becomes an additional cost to the commodity, making such commodity cost $26 instead of $20. But, as previously mentioned, the burden of any description whatever is entirely eliminated from its application to cost, and receiving becomes as much a burden as occupancy, administration, or any other factor coming into the cost of operation.

It has been customary in many trades where a store pays transportation charges, whether by freight, express, motor trucks, or in any other form, that the vendor assumes the charge. Where the vendor does not assume the charge, the retail organization will make a deduction for such transportation charges in making remittances for the purchase. This practice has been in effect for centuries and is gradually diminishing. The practice has become so extensive that organizations have been set up by the manufacturers of various commodities organizing against this unfair advantage which the retailer takes upon the manufacturer.

Receiving Salaries.— An additional cost in conducting a receiving department, and perhaps a greater cost in size than transportation charges, is salaries. The customary cost of salaries for the receiving department averages two-tenths of one per cent. This average percentage is an excellent guide, and has been found by the author to be almost the standard rate for every large store throughout America.

Receiving Supplies.— The supplies used by the Receiving Department must receive careful attention. These charges are usually for receiving boxes, stationery of every description, and conveyances — usually in the form of trucks to convey merchandise from the receiving department to the merchandising department — and other supplies that are necessary to conduct a receiving room properly.

Cognizance must be taken of the fact that price tickets hung on merchandise or attached thereto are not a supply for receiving. Such price tickets come under the caption of supplies that are chargeable to the burden of the department to which the commodity is attached, they are to be used in the department selling that particular classification of merchandise.

It may be opportune to mention that the supply department, in distributing supplies, will do so upon requisition. Where the receiving department requires a certain quantity of price tickets for a particular class of merchandise, the department for which the price tickets will be used is specified on the supply requisition. The supply department will charge the department which will put the tickets in use, whether attached by the receiving department or not. At the month's end it will pass such charges into the general office, which will make a distribution for supplies to the departments in which it was utilized. Thus an equitable distribution for supplies is given.

Receiving Demurrage.— It very often occurs that merchandise is received from a vendor, when the vendor did not properly execute transportation papers, with the result that the merchandise was obliged to go to the storage houses, or to be stored in the store's own storage or receiving room pending adjustment or tracing of transportation details or documents. This entails an additional cost for the receiving of the merchandise, and must be set up so that the cost will be charged to the receiving department. At the same time this must be the means of knowing how often the demurrage occurs so that better facilities will be instituted, eliminating such additional expense. The further away the store is from the merchandise markets, the greater the contingency for demurrage.

Vehicles.— A store will, in addition to the delivery vehicles, maintain vehicles for the receiving of merchandise

only. These vehicles are used to receive merchandise from docks, storage houses, or from any point whatever, in order to fetch merchandise into the receiving department. The maintenance of such vehicles becomes a direct charge to receiving, along with chauffeurs' or drivers' salaries, garage expense or, where horses are used, the up-keep of horses, rent, fodder, harnesses, etc. Where motor trucks are used, new parts, chauffeurs' salaries, accident insurance, or all classification of insurance applied, and depreciation of the equipment become an additonial charge to the receiving department.

Transportation Insurances.— It is customary to have a certain amount of insurance in forms covering the transportation of merchandise from various sections of the country to the store. This insurance, known as "floater," covering fire, pillage, or entire loss, is to compensate an organization for any losses sustained in the transportation of merchandise, which does not protect the buyer in accordance with the Interstate Commerce Laws. The cost of such insurance is chargeable to the receiving department. The loss of merchandise above the value recovered by insurance it written up in a loss account, detailed.

Distribution of Receiving.— In order that an equitable distribution may be made to the various departments conducted by the store for receiving costs, the total amount of receiving each month is distributed and charged to the diverse departments on the basis of merchandise purchased.

Delivery.— The extensive cost of maintaining delivery must be in keeping with the store. Every means possible in modern merchandising has been tried in order to reduce the cost of maintaining this department.

Inducements of every description are promulgated to have the customer take the merchandise with her. In the latter part of 1918, a few stores of prominence made it a fixed rule that with all merchandise that was sent, a cus-

tomer was obliged to pay a charge of 10 cents for each package. Though this charge of 10 cents is very small, customers have taken exception to the charge. But having become accustomed to paying this charge, they prefer to have the merchandise sent rather than to carry it home with them. Ten cents by no means covers the cost of delivering the package. In the years of 1910 or 1911 a package could be delivered for as low at 7½ cents, and this cost seldom exceeded 15 cents. At the present time the cost for delivering an ordinary package will run as high as 50 cents, with an average of 35 cents. This does not include house furnishings, furniture, floor coverings, pianos or heavy merchandise coming in the same category as the merchandise just described. The charge of 10 cents is not made for the reduction of delivery, but to induce the customer to Take Packages With Her rather than to have them sent. This relieves the congestion in the delivery department, and helps in eliminating the smaller packages which are always more expensive than the larger ones.

Vehicles.—Transportation vehicles, whether motor or horse power, cost a considerable amount for their up-keep. All of this is charged to the delivery department. Where motor vehicles or wagons are in use, the cost of such trucks is charged to delivery equipment. They are depreciated not to cover a period longer than three years, and 1/36 of its original cost is depreciated monthly, where the reserve is set up for depreciation, and its debit charge is placed to the cost of Vehicle Delivery. In addition, chauffeurs' salaries, helpers, new parts, garage expense, gas, general up-keep and insurance are direct delivery charges to vehicles.

Parcel Post.— Parcel post charges are used where packages are sent out of the city or out of the city limits, where the delivery department or vehicles do not go. The postage stamps in use have always been a source of annoyance to the management of a retail organization. Not that

the honesty of any of the coworkers in the department has been questioned. But regardless of how it may be controlled, an opening for dishonesty will be apparent. Organizations have known parcel post charges to run up to considerable amounts. To control this by detailed accounting would entail a greater cost than the amount that might be open for unaccounted postage. It is therefore advisable to adopt the same methods as are used in mail order houses. Where a considerable number of packages are delivered by parcel post, the mail order houses will make arrangements with the postmaster to use what is known as PRECANCELLED STAMPS, thus insuring a greater amount of security in the proper handling of postage stamps than could be otherwise obtainable.

Conveyers.—The larger the organization, the greater must be the facilities for delivery, and efficiency of the delivery system becomes a prime factor. Various kinds of chutes from all floors will be erected so that packages will be sent readily to the basement, if a delivery department is situated in that section of the store. Or, if the delivery department should be located in one of the upper floors, conveyers of various descriptions will be installed.

Packages may be collected by trucks at the various wrapping desks, or at central points on each floor by means of door trucks. The cost for the up-keep of the conveyers, trucks, and coworkers employed for fetching the merchandise from the department to the delivery room is charged as additional cost for delivery.

Conveyers are very expensive installations. When a conveyer is installed, it is originally charged to delivery equipment, and a monthly rate of depreciation of the original cost is chargeable to the delivery equipment to set up a proper cost for delivery charges.

Delivery boys or messengers are employed in addition to all other delivery conveyances, in order that deliveries may be made promptly, giving the customer a first grade of ser-

vice. It is the services which a store desires to render to its patrons which increase the delivery cost. Carfares become a factor when customers desire merchandise to be delivered specially, or at a particular time. In order that these special deliveries are properly carried out, to wait for a particular time when a store vehicle reaches that point would become inconsistent with the service that a store desires to render its patrons. Special messengers are therefore employed, and the cost for delivery of these packages by car, or special messenger, entails a special cost for the delivery.

Salaries.— The salaries paid to all coworkers in the delivery department, whether they are chauffeurs, drivers or clerks, become a cost to the delivery, and is chargeable to this department.

Supplies.— The greatest burden of supplies that a supply department has to carry is that used for wrapping and delivery purposes. All twine, paper boxes, excelsior, cases, crating, nails, hardware, etc., used by the delivery department must be charged to the department where the supplies are sent. Such supplies, then, become a direct charge to the department in which the supplies are delivered.

Distribution of Delivery.— A careful accounting in every department is set up to show the number of packages delivered to patrons from the various departments. This is obtained from the address label of the sales check, usually pasted on the package or hung on a manilla card, which card is attached to the merchandise to be delivered. At the end of the period, which is one month, the closing of the month will show the exact expenditure for the up-keep of the delivery department. The merchandising departments are then charged with the number of packages that were delivered from their department at the rate per package for delivery charges for each month. The ordinary cost accounting for burden distribution is applicable.

CHAPTER XIII

PROFIT AND LOSS

Buying Burden.— The burden of buying is an extensive one. Its size is dependent upon the volume of business a store transacts. The salary paid to a buyer does not signify that such salary is the only buying expense of the store, but all other expenses that arise through the buying organization must be added to salaries in order to have a complete knowledge of what the total expenditure for buying may be. These expenses are a direct charge to the department in which the expense occurs, with the exceptions found in the more detailed description that follows.

Buyers' Salaries.— The buyer of a department store may buy for one department or many. In the larger organizations, the buyer will purchase for one department only. The salary received by the buyer is therefore a direct charge to the department of which he is buyer and manager. Where a buyer purchases for more than one department, his salary should be distributed among the various departments on the basis of merchandise purchased. All bonuses or gifts, prizes and extra remunerations are chargeable in the same manner as salary, depending upon the circumstances for which such additional payments have been made, reflecting upon the departments which are responsible for such payment.

Traveling Fares.— Buyers' traveling expenses refer to expenses incurred while they are on board trains or ships. It may be in traveling to other cities, or to foreign countries. This expense is segregated from living expenses while traveling, in as much as it is necessary for the store to know exactly the expenditures caused by traveling to other cities for the purchase of the store's merchandise.

Traveling Expenses.— Traveling expense covers hotel bills whether in their own country or in a foreign country. It is customary for every department store to allow a buyer, in addition to their own railroad or steamer fare, from $4 to $10 a day, though the greater number of stores throughout the country allow this expense as $5 a day. This does not refer to buyers of such stores as are located in New York city, where the greater market for the department store merchandise exists. Buyers connected with New York stores are allowed street carfares and taxi-cab charges, but usually these are not expected to be charged up by the buyer. Traveling to the Orient, or Europe, in search of particular merchandise may require an additional cost for traveling. This expenditure, being entirely out of the ordinary, an exception is made to the entire practice of mark up heretofore described. For reasons of the tremendous cost of importing foreign merchandise and because its usefulness may only be utilized by that portion of society capable of paying liberally for their requirements, the cost of merchandise will be determined prior to setting the mark up. These will be as follows:

Prime cost of merchandise.
Commissionaire service abroad.
 Expressage abroad.
 Packing abroad.
Tax abroad.
Consular invoice cost.
Ocean transportation.
Marine insurance of all descriptions.
Duty.
American drayage.
Foreign traveling expenses.
Allowance for wear and tear.
And finally added to the above items, the mark up for retailing.

Out of Town Offices.—Most stores are accustomed to having a New York buying office. Sometimes an office also exists in other cities. Where a store does not maintain an office of its own, it usually is connected with some other buying organization, for which service a payment is made from $500 a year upward.

Where offices are maintained in European capitals, such as London and Paris, in addition to the cost of the office, a commissionière, who assists in the buying of foreign merchandise, is maintained on a percentage basis. All of this means an additional cost to maintain the buying organization. It may be argued that commissions paid to a commissionière are an additional cost to merchandise. It is admitted that such is the fact, but this item should be segregated from the direct cost of the merchandise to an indirect cost, in as much as, if the buyer was over at Paris and he were doing the buying, it would not be necessary to employ a commissionière. Or, if the buyer were thoroughly acquainted with the various conditions in Paris, he would not be obliged to employ a commissionière to assist him.

In importing, a charge in the European countries is made for every move of merchandise, such as packing, crating, drayage, consular invoices, marine insurance, etc. These charges, as enumerated, are an additional cost to the merchandise, and not to the maintenance of a buying office.

The maintenance of these offices in our own country or any foreign country is a direct benefit gained by all the departments. It is therefore reasonable to assume that each department, which gains the benefit of this office, should bear its proportional cost. Those departments importing merchandise alone must stand the cost of maintaining offices. Other departments which receive a direct benefit of maintaining offices in other cities receive their share of such burden on the distribution of merchandise purchased.

Where out-of-town offices maintain an office staff for clerical work, their salaries, supplies, and general up-keep should be added to the cost kept under separate captions in the general ledger.

Selling Burden.— The cost of selling merchandise in the department store does not rest alone on the salaries paid to the sales help, but on every element that touches directly upon the actual sale of the merchandise. These are divided into two classes:

One is direct selling, and the other advertising.

Under direct selling, we begin with the caption of sales force.

Sales Force.— All coworkers, who are directly engaged in selling merchandise and are generally known as sales workers or sales people, are a direct charge to selling. Their salaries alone should be set up separately from any other payment that may be made to them. The distribution of their salaries is direct to the department in which they are employed. It very often happens, and in fact it is almost a daily occurrence in stores, to transfer a sales clerk from one department to another for a few hours or for a day. When this takes place, a coworker's transfer record is made by the floor manager, who will send such transfer to the paymaster, or employment superintendent. He, in turn, will credit the salary that the clerk receives to the department in which he is employed, and will charge the department to which he has been transferred either for the number of hours employed in the department transferred, or for the entire day, if the clerk has been so employed.

Contingent Sales Force.— Almost all retail establishments have a contingent selling force. This selling force is not employed for the entire week, but may perform its work on Saturdays only, or for two or three days of each week. This contingent selling help is distributed to vari-

ous departments through the superintendent's office, which so notifies the paymaster's office, which checks up its salaries by the time put in by such help. It is segregated from all other selling help, and very often figures will assist in determining the necessary selling force required for the various departments.

Contingent Stock Help.— In addition to stock boys and stock girls employed to take care of stocks in various departments — usually in furniture, floor coverings, house furnishings, and wearing apparel — additional help is often engaged after school hours, usually for Saturdays and, in some cities, on Mondays, and is known as contingent stock boys and stock girls. They, to a great extent, assist the selling force in selling the merchandise by the proper care of the stocks and doing errands that are necessary as assistance in the selling. They, therefore, take on the functions of selling assistants and are a direct charge to selling expense, under their own ledger caption.

P. M. Salaries.— P. M. salaries are salaries paid to all sales help in addition to their regular salaries. The P. M. is a premium paid for performing extra services and selling merchandise or old stock above a stipulated price. P. M.'s are known in some trades as SPIFFS. The selling of merchandise above the marked price is the old form of P. M.'s, originated many years ago by unscrupulous merchants. They would, to use the vernacular, look the customer over for an " E. Z. mark," and if found to be in the category of P. T. Barnum's description of a " sucker," they would argue on various prices until the article was sold or the sale lost. The P. M., as practiced by honest merchants, is the payment to the sales person of twenty-five cents on the dollar for all higher priced merchandise sold above a stipulated price. Sometimes a flat 50 cents for every $1 above a stipulated price is paid.

In the opinion of the author, P. M.'s should be abolished

in every form. The educational department should carefully instruct sales help in salesmanship so that special inducement to sell stocks that are higher priced or undesirable is not necessary and no discrimination is made.

Advertising.— A very common error made in retail accounting is to charge to advertising moneys paid to newspapers or circulars for direct advertising matter, terming such cost advertising expense. To set up the real cost of advertising, every element must be taken into consideration. That includes salaries for advertising managers, his assistants, sign writers, window trimming, interior decorations, electrotypers, etc. The combined expense is the actual expense incurred for advertising.

Advertising Salaries.— All advertising must have its beginning. While the thought may come from almost any center of the establishment, publicity is established through the advertising department. This department generally consists of the advertising manager, lay-out clerks, artists and stenographers. All salaries paid to this class of help are known as Advertising Salaries, and should be charged under a ledger heading of their own.

Newspaper Advertising.— The next in line to advertising salaries is the newspaper medium, which is the greatest of all advertising expenditures. While the accounts of the various papers are set up in the Burden Ledger, the monthly sum total is written up in the General Ledger under the account known as Newspaper Advertising. It is very important that this account be kept carefully. Newspaper advertising costs vary from 1¾ per cent to 3 per cent for department stores; for specialty shops, from 2½ to 5 per cent. Newspaper advertising in excess of this amount can only be accounted for through special advertising or the neglect of the proper control of an organization.

The distribution of the cost of newspaper advertising is

a direct charge according to the space used by the various departments. In addition thereto, all other advertising matter is distributed to each department on the basis of its sales. It may be argued that a department which does not advertise at all for an entire month should not bear the burden of any part of the advertising costs, for the reason that it has in no way, shape or manner, either by newspaper, pamphlet or even window display, participated in any direct newspaper for advertising matter.

It is not logical that because a department did not participate in the expenditure, it should not bear the burden of any charge. It must be admitted, in view of the fact that all other departments, or a great number of other departments, have borne a considerable amount of the expense of advertising and brought customers into the store, that a department which has not advertised has materially increased its sales, or run up a fair volume of business through this advertising. That department, even though it did not advertise, indirectly gained the benefits of the expenditure made by the department that did advertise. This being the fact, it is but equitable that the department not advertising should at least bear the expense of part of the indirect advertising matter, but of no part of the direct advertising matter which would be in the form of newspaper advertisements, pamphlets or hand bills.

Electrotypes.—With few exceptions, all retail establishments will use an electrotype reproducing the particular class of merchandise that is being advertised. The artist will make a sketch depicting the advertised subject, which will be set up in the form of an electrotype, cut or matrix, which is used by the typesetter in setting the type for the advertising matter. It may be imagined that the cuts, though inexpensive, surprisingly increase the total amount of expenditure. Good advertising is not an expense, but one of the principles of turnover. Though it

seems that no merchant would make an expenditure unless economic conditions and business warranted such expenditure, still it is often found that cuts and matrices are abused in their use.

Signs and Posters.— One of the superstitions of a department store is that of believing in signs. This should not be interpreted as meaning that the entire establishment should be literally placarded by massive signs projecting from ceilings or walls. Signs are rather placed on tables and counters to convey thought to the mind of the patron and to act in the capacity of a silent salesman. These signs and posters are written upon cardboard, oilcloth, wood, or anything conceivable that will be pleasing to the eye and convey a thought to inspire desire. They may be in show windows. They may be represented by a sign mentioning the firm's name on the outside of the building, or by a pennant projecting from one of the windows of the building or upon its roof. This is also advertising, and should be charged accordingly under a separate caption upon the General Ledger.

Sign Writer's Salaries.— Salaries paid to the various sign writers should be charged up to a special heading, and are an additional cost to advertising. Paints, brushes and material of every description are an advertising supply cost.

Window Decorators.— Window trimming constitutes quite an expenditure, and perhaps as great an advertisement as any advertising store matter. A considerable expense is gone to in order to make the windows very attractive by means of backgrounds, paintings, floor coverings, window display fixtures, lights and supplies, velours, velvets, cretonnes, etc. These, along with the salaries paid to window trimmers, are chargeable under two separate headings. The one is known as window decorations, or window trimming, and the other as window trimmer's sala-

ries. Segregation being necessary for detailed information for cost record.

Depending upon the quantity of window space, the department is charged with the cost of the space it occupies by the number of days of each month. Where all display windows are on one street, with an even depth, and where only one department is at any time advertised in the window, the rate is an equal one, depending upon the total cost of the month. However, where a window has a considerable depth, and two or three departments are advertised in one window, it must be remembered that that class of merchandise nearest to the street is charged with the greater cost, and the department placed in the rear of the window, or on the side windows, facing the vestibule, is charged with the lesser cost.

Lights, window cleaning, window plate glass insurance, are additional costs.

Advertising Supplies.— A considerable amount of supplies is used in the advertising department. These consist of paper, crayon, pencils, inks, various descriptions of paper, and a host of minor supplies, all of which become necessary properly to conduct the advertising department. These necessary requisites, indirectly, are an additional cost to advertising, and should be so charged.

Novelty Advertising.— There are various forms of novelties which are distributed amongst the patrons of an establishment. They may be souvenirs of a suit department, a house furnishing department, or small play trinkets, booklets, balloons or toys given to children visiting the "kiddies'" department, better known infant's wear, children's clothing, little girl's apparel, where the sizes run from 2 to 6 and 6 to 14. These novelties are purely and simply an advertising proposition. As such they are to be charged to advertising. The department that distributes these novelties is directly charged with the advertising matter.

Interior Decorations.— Another form of advertising is that of interior decorations. Considerable expenditures are made in making the interiors of various departments attractive. This does not refer to merchandise which is set up in an attractive form on counters, cases or shelvings to attract the eye, but to decorations on walls, pillars, staircases and the like. There can be no specific items mentioned of which the interior decorations might consist, but it will be understood that with regard to any decorations made in the interior of the store by the display manager or his assistants, the time put in by such help and the expenditure for decorations is a charge to indirect advertising, which is pro-rated on sales to the various departments of which the store is made up.

Miscellaneous Advertising.— The term "Miscellaneous" for a ledger account should be avoided wherever possible. It does not convey any specific meaning, and as such it is difficult to convey a thought that might be of material benefit for the management of an organization.

In using the term Miscellaneous Advertising, reference is made to magazines, programmes, cinematograph slides, and donations that take on the aspect of advertising rather than of charitable donations. Where the store advertises as a whole, the cost of all these should be pro-rated on the basis of the sales to all departments.

Indirect Burden.— The greatest burden of all store expenses is that which comes under the caption of Indirect Burden. The interpretation of this classification of burden is expense that cannot be charged directly to the cost of conducting any of the merchandising departments, or operating departments. It also consists of non-selling expenditures, salaries, and non-productive costs. Unproductive costs as interpreted in retailing are costs that do not enter into either buying or selling of merchandise, and do not apply directly to administration.

Help Wanted Advertising.— Help wanted advertising is quite a costly item, and it can only be reduced through a lower turnover of help. In this respect, the interests of the coworkers must be aroused by making their work of a fascinating nature. Bonus plans have been adopted in many stores. In those organizations where bonus plans have not been put into effect, it is highly recommended that such methods should be introduced.

When newspaper advertising is necessary to engage help, an unnecessary expense is immediately gone into, which might be avoided if a proper employment department is organized.

Coworkers' Bonuses.— In paying bonuses to coworkers, the office should differentiate between a bonus and a gift, Gifts are not permitted to be deducted from income tax, whereas a bonus is deductible and may be considered as an additional salary to be paid. There are many forms in which a bonus may be paid to a coworker. They should be segregated into two parts, one for selling help, and the other for the non-selling help.

As to selling help, a quota could be formulated which quota should be the equivalent to a percentage equalling the salaries to be paid by the department. All salaries are to be uniform. On all sales made above a stipulated quota a percentage equivalent to that of the original quota equalizes the salary.

The result would be as follows:

A sales person receives a salary of $20 a week in a department. An allotted percentage for selling help permitted to a department would be 4 per cent. The quota for that department would be $500. For everything sold above $500 a commission may be determined, to be paid to the sales persons as a further inducement to perform a greater sales record. The percentage might be 2 per cent, but never exceed 4 per cent.

The bonus to be paid to the non-selling persons takes on an entirely different aspect. We assume that a store is willing to distribute a certain percentage of its profits. Each classification of non-selling help is to be given a certain number of points. Should a coworker be in the employ for one whole year, he would be entitled to that share of the distribution of profits that his number of points represents. To exemplify this:

A store has 1,000 coworkers who are non-selling help. They may receive one point, two or twenty points. A segregation of all these points is an equivalent to 10,000 points. The profits to be distributed would be $50,000, making each point bear a $5 value. If a coworker is entitled to 12 points, his bonus at the end of the year is $60.

These bonuses are to be charged to a bonus account, set up by debiting " Current Surplus " and crediting " Bonus Account." When the bonuses are paid, they are debited to the bonus account, thereby closing out the distribution of bonuses for the current year. Should other bonuses be paid during the year for a particular class of work, it should be charged to additional salaries for the department in which the coworker is employed.

A thought beyond the distribution of the profits by distributing points for each particular position is to centralize the ambition of all coworkers as if they were a single unit. For the greater the profits of the organization the greater will be the distribution of profits, making all coworkers work for one common end. That is, greater profits increase sales and result in greater efficiency.

Cashiers' Salaries.—In setting up an audit report for salaries, professional auditors will do so by segregating this form of the store's burden as a separate and distinct item of expense, thus giving a departmentized Burden schedule for salaries supporting the profit and loss statement. The

author is fully in accord with such procedure. However, a very careful study of department store research work will result in the segregation of all salaries, making each salary applicable to that particular division of the store burden. This is necessary to analytical and progressive management.

Department store cashiering is a part of the store service as well as a branch of the accounting system. Every facility for quick action on the part of the cashier is employed. These facilities are in the form of a central cashier system, desk cashiers, cash registers, with simplified sales checks to lessen the cashier's work in making change. A cashier should never be permitted to wrap parcels nor do any desk auditing. Her change and cash turned in to the general cashier should be audited with the cash sales checks to reconcile the daily receipts. The change she disburses should at all times be new money and bills, easily obtainable from the banks with whom the store carries its banking account.

In the distribution of cashier's burden, the cost or salaries paid should be charged to the departments in which her station is situated. Where her duties apply to more than one station, her salary may be pro-rated on the basis of sales.

Exchange Clerks Salaries.— In almost all department stores a station is provided where customers may have merchandise credited to their accounts and obtain refunds or credit vouchers to apply as payment for other purchases. These stations are known as exchange desks and are in charge of a clerk known as Exchange Clerk.

The credits issued are audited by the auditing department, from which audit the returns of the various departments of the establishment are set up and deducted from the gross sales, to ascertain the net sales of a department. Some stores are very liberal in accepting exchanges,

whereas others will not accept changes after three or five days. The most liberal policy is not to issue any credits, but to insist upon the customer's accepting a cash refund, unless a charge account is extended to the customer.

The distribution of exchange clerks' salaries is based upon the returns and is pro-rated accordingly.

Adjustment Department Complaint Clerk's Salaries.—The position of the complaint clerk is by no means an enviable one. Her trials are many and require a personality whose equilibrium is evenly balanced, an amiable disposition and a thorough knowledge of the store policy, system and departments. Particularly at this station is a customer made or forever lost to the store. Unless redress is here obtained, a persistent customer will carry her complaint to the management. Thus not only is the valued time of an executive unnecessarily consumed, but the complaint is permitted to reach an aggravated state. The management should receive daily a copy of every complaint filed with complaint clerk, so that means may be taken to eliminate faulty transactions. Recommendations are made to further appease the mind of the complainant, to communicate by letter from the executive offices to ascertain her feelings, and to offer expressions of regrets.

The distribution of adjustment bureau's salaries and expenses is pro-rated on sales.

Will Call Clerks.—A well managed department, regardless of its volume, will conduct its "will call" department in its own merchandising section. The term "will call" is sometimes known as "lay away department," deriving its terminology from the fact that a customer not having sufficient funds to pay for merchandise desired, may have the privilege of having her selection put aside upon the payment of a deposit.

Many organizations set up a "will call" department in a particular section of the store, conveniently located and

readily accessible. This department will be in charge of one or more clerks. The merchandising departments, which transact lay-aways through this department, are chargeable with its up-keep.

The distribution of its cost may be set up by a record of the number of pieces handled from each department. All salaries and up-keep expense are divided by the total number of pieces, to ascertain the cost per piece of merchandise handled during the month. The cost per article, multiplied by the total of each department's commodity, will furnish the exact Burden to be distributed and applied. Furniture, pianos, house furnishings and the like do not come within the scope of this department.

The method of least resistance is to pro-rate on the basis of sales, but this could not be an equitable distribution.

Inspectors' and Inspectresses' Salaries.— The term inspector may refer to examiners of newly arrived merchandise, or to the delivery department or to the parcel wrappers in the various departments.

In the receiving department, inspectors or examiners will carefully examine all merchandise as to its proper construction and the fulfillment of the contract or conditions that may appear on the copy of order. Usually, the buyer of the department will examine the commodity and take cognizance of its construction's being the same as the sample from which the purchase was made. Where examiners are employed in the receiving department, an additional cost to receiving is assumed.

The delivery department inspectors are an additional cost for the deliveries. In mail order houses, the inspectors in the delivery or a mailing department will promiscuously pick up a package from the conveyors or from the assembling bags, open the package and examine its entire contents. In the department store, the requirements of inspectresses or parcel wrappers are for the examination of the

price ticket, comparing it to the sales check for price, description, lot or style numbers and quantity.

The distribution of their salaries is chargeable to the department in which they are employed. Where inspectresses perform their duties for more than one department, their salaries are pro-rated on the sales in the departments where they are employed.

A fallacy permitted by many stores is permitting cashiers to do their own inspecting. Where cash registers are in use, and the sales person is permitted to wrap her own parcels, the cashier will verify the amount registered with the prices appearing on the price tickets attached to the commodities sold. This is the only exception for permitting cashiers to act as inspectresses.

Executive Clerks.— The executive offices employ stenographers and clerks to perform the necessary clerical work appertaining to the functions of propagation of commerce or store policy.

The executives' salaries are a direct charge to administrative burden, under the caption of executive salaries or administrative salaries. However, the clerks must be segregated to apply to indirect burden. Executives' clerks and secretaries apply to owners and executives, other than buyers, and general office management.

The clerk hire for merchandising offices cannot be applied to the buying burden, in as much as it does not directly apply to the buying of commodities. Hence, the clerical force becomes a part of the indirect charge to operations under its own caption of merchandising section.

The distribution of this class of expenditure is pro-rated on the basis of sales.

Telephone and Telegraph.— The account for telephone and telegraph expense, generally referred to in this fashion by bookkeepers, should be in analytical form under the following captions:

Telephone Contract.—

1. Monthly messages.
2. Cost.
3. Toll calls.
4. Repairs and station up-keep.
5. Salaries to operators.
6. Stationery and supplies.

This procedure may appear to be quite an extensive method of accounting, but its simplicity does not assume additional labor in bookkeeping. It is doubtful whether the management of any organization will authorize the payment of a voucher for telephone service without making some comment about the exorbitant cost. This itself makes it necessary for better accounting methods to eliminate avoidable uses of telephone up-keep. A direct wire to a market or a market office may be contracted for to reduce toll cost. Telegrams can be charged directly to departments (operating departments), whereas all other costs may be distributed and pro-rated on basis of sales.

Stationery and Supplies.—A burden that takes on considerable proportions is that of stationery and supplies, a store's printed matter, and wrapping material. The subject of stationery and supplies has been discussed partly under inventories on the balance sheet. The allocation of this expense must receive careful attention. Unnecessary expenditures will creep in, often harmful to the best interests of the organization. Like merchandise purchased for trading purposes, authorization and confirmation should prevail. Careful consideration and examination of every system form should be approved by office manager and system manager prior to reordering. The purchasing must receive the approval of the department head who requisitions the supplies, and the order must be confirmed by an administrative head.

All supplies are charged to a supply inventory, which is

reduced only by requisitions signed by the department head desiring the supplies. The value of the requisition is charged to thé department making the supply request. At the end of the month, a detailed report by the supply department is furnished to the general office, which will allocate the departmental charge, credit the supply inventory and charge the indirect burden and such other departments as come under the division of the store burden. Supply clerks and supply purchasing agents' salaries are an additional cost to supplies.

Postage (*Postage Register*).—Defalcations in petty ways are very common among those intrusted with the custody of postage stamps. This item of store burden is not a small one. Some of the larger department stores have found this account to reach as much as $25,000 a year. The author, as comptroller of a mail order house, has seen this account run into hundreds of thousands of dollars.

While postage stamps on hand may appear as a deferred asset, their value represents a convertible asset. This asset is reduced by its absorption of store or administrative burden. The custodian of all postage stamps should keep a book record in the same manner as the debit and credit side of the cash book is maintained. Requisitions should be required to release stamps from their custodian, who will enter on the credit side the value of stamps issued, charged to the department making requisitions. The columnar book, known as postage register, is quite appropriate. An occasional audit should be made to verify any misuse. Parcel post records should be checked with the postage register for reconciliation. The allocation of this burden should be obtained through the postage register.

Paid up Insurance.—Premiums are the consideration paid by the assured contracting insurance against loss. The prepaid premiums are a deferred asset, and expired premiums are a direct charge to operations. The first pro-

cedure in accepting a policy of an insurance company is to determine its financial standing as to its ability to meet contingent liabilities. This is readily obtainable through the financial publications, in book form, through state control, or the underwriter's board. The statements of operating companies are divided into two schedules — one being the Financial Schedule and the other the Statistical Schedule.

The solvency of the insurance company in most states is determined by a state insurance department. However, the examiners are not always experts, and care as to the solvency of the company should be taken by the financial management prior to accepting its insurance.

A varied insurance is carried by department stores. This includes fire insurance for stock and fixtures. It is recommended that replacement value should be preferred to that of a 100 per cent or 80 per cent co-insurance clause. The cost of this insurance for expired premiums should be charged to indirect burden.

Transportation and parcel post insurance, for receiving purposes, are chargeable to the Receiving burden.

Automobile insurance, for fire, theft and accident collision, is chargeable to the delivery department. Where it is maintained for the Receiving department, this insurance cost should apply to receiving cost.

Sprinkler, boiler, plate glass, house accident and elevator insurance are chargeable to occupancy.

Bank messenger, hold up, burglary insurance, employees' bonds and compensation are indirect allocations.

The nature of the insurance will designate its distribution.

Carpenters.— Most every department store employs a staff of carpenters and maintains a workshop. The scope of labor not only includes carpentry, but painting as well. It has been found, after considerable experimenting,

that it is more economical to maintain a carpentry department than to contract with outside contractors for the upkeep of this particular classification of labor.

The moving of fixtures and their construction has been discussed under reserve for depreciation. It is doubtful whether any retail establishment is now in existence that has not at some time or other moved about its fixtures, or that is not constantly changing its departments. It apparently seems to be a characteristic amongst retailers, no matter what commodity they merchandise.

Reconstruction of fixtures and of the layout of the store and its departments has become habitual with the progressive merchant. This is done for the convenience of customers and for the better presentation of the varied stocks displayed to catch the eye of the prospective purchaser. With this, the carpenter assists the display manager in the artistic manner of display to present commodities to better advantage.

To exemplify this, a department's fixtures will be installed and painted mahogany color. The manager after visiting other stores, will find blue a better shade to display the stocks of this particular department. This color makes a profound impression and, upon his home coming, the manager immediately proceeds to change the fixture construction and to paint the fixtures blue. A short time elapses and the management, after making other visits, finds that the prevailing color combination for this particular stock is a combination of blue and gray or white. Again the change is made. Thus, the prime reason for a carpentry department is established.

Shelvings, tables, cases, floorings and partitions require repairing. Oiling the wood for better appearance and longer life is a necessity. Here, too, the carpenter is very essential. The accounting for this department is set up and controlled by the budget system, segregating the various expenditures entailed by this department.

Construction of new fixtures, such as display tables and show cases, is a direct cost to new store equipment. All cost for labor, material and burden should be carried on the store equipment account as an asset. Replacements are direct charges to reserve for depreciation.

Repairs and maintenance of all store equipments are an indirect charge to store burden and consequently are chargeable to the profit and loss account. The allocation of these charges to departments is pro-rated on the basis of sales.

The administration of some organizations charges the entire equipment to the specific merchandising department in which the selling equipment is situated, thus applying capital equitably. Where this capital distribution is in effect, repairs and maintenance are applicable to the department where the repairs and maintenance expenditures take place.

Financial Income.— The income of an organization, organized to carry on trade in merchandising, using the term merchandise as is commonly interpreted in the field of commerce, may be divided into two parts:

One is the profits accumulated from turnover of merchandise;

The other is the profits accumulated through financial transactions.

In the entire construction of retailing, the financial principles of merchandising as the basis for calculations of every conceivable angle, depend upon ascertaining the turnover. It will readily be seen that, in order to obtain this, all financial incomes or anything appertaining to finance that might add an additional profit, must be eliminated. It therefore behooves a department store or any retailing establishment to segregate its profits, so that merchandising profits that accumulate through financial transactions should be set up separately on the profit and loss statement.

Merchandising Discounts.— Almost all purchases are subject to discount. The percentage of discount generally applicable to a commodity is that which prevails in the market for such commodities. The terms of sale, known as dating, represent a definite time allowed for the payment of the invoice covering a shipment for merchandise bought, sold and delivered. The vendor agrees with the vendee that if at the end of ten days from the date of shipment, or thirty days, or sixty days, as the agreement of the sale may be, the account is paid, a discount of a stipulated percentage is permissible. However, if the invoice rendered to cover a shipment is not paid at the termination of the definite time mentioned on the invoice, it is optional with the vendor whether or not the discount will be permitted in the settlement by the vendee. It narrows down to the fact that the discount becomes a financial transaction.

Assuming that the debtor is unable to meet his obligation at the stipulated time which had been arranged, in order for the debtor to take advantage of the discount applicable to the invoice which is maturing, he will often negotiate a loan with either his bank or some other individual, to whom the debtor agrees to pay interest for the loan of sufficient funds to meet his obligation.

The loan having been negotiated, the debtor will then proceed to settle his obligation with his creditor in order to derive the benefits of the discount, to which such invoice is subject under the terms of purchase. The debtor is willing to pay a certain amount of interest for the loan of funds in order that he may receive a greater discount on the proceeds of the turnover of cash. The discount received on merchandise, as can readily be seen, resolves itself into a financial transaction.

Accountants may argue that a price paid for merchandise is the gross price, after deducting the discount, to

which the price paid for the merchandise is subject. The author admits that accountants who argue along these lines are correct when an invoice is subject to what is known as a "Trade Discount." But where the ordinary terms are applicable, should an invoice be paid at the expiration of the terms of sale, a financial transaction becomes evident. A segregation, therefore, in order to obtain the cost of sales, is set up on a retailing profit and loss statement. This shows the cost of merchandise entirely separate from financial transactions. Discounts received from merchandise purchases, other than trade discounts, are set up on the profit and loss statement under the caption of "Financial Income." It must not be overlooked for a moment that the mark up of stocks is on the gross price paid to the manufacturer. No consideration is given to terms of sales other than those here described.

Miscellaneous Purchase Discount.— It is recommended that separate accounts be set up to show discounts obtained from merchandise purchases and discounts obtained from expense purchases and miscellaneous purchases. These are not very extensive. They generally depend upon the volume of business enjoyed by an organization.

Purchasing Agents' Discounts.— Purchasing agents may be placed in the same category as salesmen working on the commission basis, who receive a commission on the proceeds of their sales. The purchasing agent's organizations are more prominent in the eastern states than in any other section of the country.

There are many large department stores that will not permit purchasing agents' discounts, for the reason that a large amount of expenditure is involved in carrying on their accounts, and their purchases are subject to a high percentage of returns.

The general discount permitted to purchasing agents for all sales effected through them, either direct or indirect,

averages 10 per cent. The question arises whether or not the percentage of discount given such purchasing agents can really be termed a discount. If termed a discount, it comes under the heading of financial income, and is a direct charge against financial incomes of other sources. However, it is the contention that the discount given to the purchasing agent is a brokerage fee or a commission for sales effected through their efforts, and may be applied in the same manner as the salary and commission paid to any sales person in any particular department of a store's organization, in as much as it is a selling burden.

The purchasing agent's discount should be applied under selling burden as a brokerage cost for selling. There would be, in the distribution of this additional selling burden, rather a difficult problem for an equitable application of additional selling cost. To apply the distribution by prorating on the basis of sales may, in many instances, impose an unnecessary burden on certain departments whose sales are few or none at all through purchasing agents.

Wherever possible, the auditing department segregates its charge accounts from those of personal charges and purchasing agents by departments, in order to set up a proper equitable selling burden. Where the bookkeeping department makes its own audit for charge accounts, this information may be obtained through them, and passed on to the Statistical department, where additional selling burden will be distributed to its proper source.

Interest Earned.— Interest earned is a direct credit to financial income. The source of such earnings may be from interest on daily bank balances or from investments in stock, bonds or property other than those required to conduct the affairs of the organization. Interest earned through the anticipation of pre-maturity obligations, other than Notes Payable. would come under this caption.

Interest Paid up.— The cost for borrowing money and the penalties, paid in the form of interest, for obligations permitted to remain unpaid after maturity, are a direct charge against earnings through financial transactions. Interest paid on investments is applicable to the income from such investments, and must not conflict with the financial income, and the operations for which the store has been organized.

Loss Account.— The ordinary bookkeeping methods are usually found to carry a profit and loss account during the entire period or fiscal year, with its closing entries at the termination of its business period. The profit and loss account should not be opened until the ending of the fiscal year, and then for the purpose of computing profits or losses to determine the results of the organization's transactions. During the course of the year, all profits that are directly made, except through the buying and selling of merchandise, should be applied to a specific account.

Losses sustained through uncollectable accounts, and written off the records, should be transferred to the suspense ledgers and carried to a loss account, enumerating under such loss account the name, address and amount of the loss.

Section 234, items 4 and 5, deductions allowed in the income tax of 1918, are as follows:

" Items allowed for losses sustained during the taxable year, and not compensated for by insurance companies or otherwise, debts ascertained to be worthless and charged off within the taxable year, the amount of net loss must represent the actual loss over and above all income."

This being required within all interpretations of the income tax law, a division between merchandising income and financial income must be set up. It therefore is necessary to show loss account, after the gross income and the

financial income have been obtained, by deducting the loss account in order to ascertain the final net profits of an organization.

Extraordinary Income.— Organizations are formed to carry on trade along specific lines. If incorporated, specifications are incorporated in the charter granted by the state of incorporation, granting permission for the conducting of a particular branch of commerce for profit. Income obtained through channels other than the specific object of organization must be treated as entirely distinctive from all other income. It must be set up on the profit and loss statement as Extraordinary income. This will appear under its own caption, following the completion of the Profit and Loss statement. Adding the extraordinary income to the previously obtained income gives a final result.

CHAPTER XIV

ALTERATION DEPARTMENT

Alteration departments are not conducted for profit, but for service to customers. Any retailing organization contemplating obtaining profit from this section of the organization may as well shut its doors, or close out the department requiring the alteration rooms. The best that can be hoped for is that the alteration department will break even. Occasionally a fiscal year may close with a profit from this department. When this occurs, it is advisable to make a thorough investigation, not from the standpoint of ledger figures, nor of the alteration manager, but of the prestige of the store, the satisfied customer, and the merchandising department.

The alteration rooms referred to are those for men's or boys' clothing, millinery workrooms, and, greatest of all, women's and misses' apparel.

Successfully conducting the alteration department of the ready-to-wear shop or department store has always been more or less of a problem that buyers and managers experience difficulty in solving correctly. Perhaps in most instances the management has not considered the advantages to be gained by the study of the economic conditions governing this department.

That 95 per cent of all alteration rooms are conducted at a loss is not merely an assumption but a statistical fact. In most cases the reason for the loss is lack of adequate system, inattention through executive incapacity, expenditures for unnecessary workroom supplies, excessive or inefficient help.

There is the "wiseacre" who believes the alteration

room should manage itself and that all that is required is a good fitter. He awakens at the termination of the season or year with the sales record decreased or else he tries to fathom the problem of where his profits have gone.

A ready-to-wear department, regardless of its volume of sales, must be organized perfectly and governed by a perfect system, with its every subsidiary department under control by efficient management. With these essentials observed, there is no valid reason why an alteration room should not pay its own expenses and assist in pleasing patrons.

The modus operandi of the alteration system begins with the sale of a suit, for example. The saleswoman in this instance has detached the forty-two-size ticket and sold it to Mrs. Smith as a regular size forty. Yes! we are perfectly aware that the clerk had no right to misrepresent the garment, even if it was only a difference in the size, but that is a story in itself. The garment having been sold, it is up to the fitter to make it fit.

Outside of the cities of New York and Chicago, perhaps Philadelphia, Boston and Cincinnati, the fitters are not real tailors. They are dressmakers, with only a fair knowledge of tailoring. However, long experience has probably fitted them to assume the duties of "a fitter."

It would be fitting and proper to instruct them, with a view to perfect efficiency, in a fixed set of rules, and monthly to remind them of these rules governing their particular work. The following "Don'ts" are very suggestive:

Don't keep the customer standing over twenty minutes for a fitting.

Don't talk to the customer unless spoken to. Be brief, but polite.

Don't make any comment on the quality of the materials

or styles, nor offer your opinion on how badly the tailor made the garment.

Don't tell the customer the alteration has a lot of work to it.

Don't make any rash promises for fitting or delivery.

Alteration Ticket.—An electric bell connecting the suit department with the alteration room will promptly call the fitter to the department. Where a store does a large volume of business, the fitters should be constantly on the floor. Subsequent to the sales check's having been made, an alteration ticket, as shown in Form 54, filled out and attached to the garment, must be as near perfection as is humanly possible. Form 54 is the result of more than fifteen years of experimenting and, when finally put into use, has been found excellent in every respect.

The alteration ticket is a combination envelope and alteration instruction ticket. When the sale has been completed, the customer receives the voucher of the sales check. The duplicate sales check is placed within the envelope alteration ticket by the sales person for future reference.

Fitters, as a rule, pin up all alterations. To those familiar with ready-to-wear merchandise, this term is readily comprehensive. It means pinning the garment, so that it will fit the form of the customer perfectly. In merchant tailoring it is the custom to chalk the garment. However, in addition to the pinning, measurements are also required for finishing purposes. So the measurements are printed on the ticket for the tailor's further information.

In the particular sale here exemplified, the suit consists of two pieces, a coat and a skirt. The alteration ticket consists of two parts, with strings attached to each; one indicating the skirt alteration, and the other indicating the coat alteration. Each ticket is attached to the part of the

garment it represents. The ticket itself gives all the necessary procedure. However, to insure the elimination of errors, a copy of the sales check is placed on the face of the alteration ticket, in the event of a C. O. D. sale, to further identify the garment when completed and ready for shipment.

Upon the completion of the alteration envelope and its attachment to the respective parts of the garment, the suit will be sent to the alteration department, where it is received by the clerk in charge of the book records.

Assuming that charges for suit alterations vary from 75 cents up, a schedule of prices for diverse alterations should be made, stipulating the charges to customers for such alterations as enlarging the armhole, raising the back under collar, removing wrinkles under the collar, padding the bust, shortening the coat or the skirt, hemming the bottom, taking in around the hips. There should also be a schedule for separate coats, dresses, gowns, etc.

The merchandising office, in compiling this schedule of prices to be paid for alterations, should give considerable care and attention to the amount the department can pay for each particular kind of work. Likewise, there should be a fixed schedule of charges to customers for the various alterations, having in mind a fair margin above labor costs to cover fittings, supplies, additional materials and unforeseen contingencies that might incur additional expense. Also not forgetting that Mrs. Smith, who purchases a suit, refuses to pay for any alteration and that, rather than lose the sale, the alteration is put through free of charge. Bad business, of course, either way, but rules should be rules, and it is safe to say that when a customer is very much taken with her selection, she will invariably pay any reasonable charge for an alteration. Therefore, it would not be recommended that any exceptions be made to the rule of charging for alterations.

This Alteration is to be Delivered on

DATE

Fitting

IF WILL CALL—PASTE LABEL HERE

INSTRUCTIONS	DEPT.
Date Sold by	

Customer

Address

Care of

PHONE
SEND WRITE

SUIT ALTERATION

ALTERATION ROOM NUMBER

Bust	Across Bust	L. Waist Front
Waist	Across Back	Length of Back
Arm Hole	Muscle	Inside Seam
Fitter	Tailor	Time In / Time Fin'd

CONDITIONS OF SALE (Sales Check No.)		
Amount of Sale		
Add. Alteration Charges		
Total Sale		
Less Deposit		
BALANCE DUE		

SKIRT ALTERATION

ALTERATION ROOM NUMBER

Waist

L. Front

L. R. Side

L. L. Side

L. Back

Around Hips

Tailor Time In / Time Fin'd

Fitter

FORM 51.— ALTERATION ENVELOPE TICKET

Alteration Record.— The clerk in charge of the alteration room records will enter all alterations that enter the workroom in a record, such as is described in Form 55. The date when the alteration is received in the workroom must be placed on the alteration envelope, and must likewise be entered in the record. The number column is a consecutive number indicating the number of alterations thus far for the season. These numbers being consecutive, the number of alterations made during a season, week or month is readily obtainable by deducting the number from a date, beginning from a date ending.

The customer's name and address follow. A description of the article is essential, such as a Suit, Coat, Dress, Waist, etc. The record of the sales person's number has been found necessary, very often, to meet investigation or tracing. This, along with the date of purchase, must never be overlooked in the entry.

The alteration number is a consecutive number and should be preceded by the department number or letter. If a suit department is known as Dept. B, the entry should be B 1. Or, if the suit department is known as Dept. 21, the entry should be 21-1.

The alteration number having been given, the same number must appear on the alteration envelope. This alteration number — which is used for many purposes during the course of alteration — such as identification and quick location during process of work, date of delivery to customer, and charge for the alteration — is essential for auditing the sales records.

The accounting procedure for alterations has been discussed previously. All alteration charges are a credit to this department. Its up-keep, covering every element, is a direct charge.

The alteration department of a store is a necessity. It cannot be dispensed with and its efficiency must be para-

ALTERATION RECORD

	DATE Incoming	No.	NAME	ADDRESS	ARTICLE	Sales No.	[illegible]	[illegible]	FITTER	TAILOR	PRESSER	EXAMINER	Date of Delivery	Alt. Charges	REMARKS	Date Out going

Form 55.— ALTERATION RECORD

mount to the entire organization. The difficulty of efficient organization and the added overhead to operations may be laid directly to the manufacturer's carelessness in production. This is evident in almost one garment out of every six. In addition to this, the manufacturers, through inefficiency or mismanagement, have their garments marked with wrong sizes.

It is a common occurrence for the shipping clerk of a garment manufacturer to take a size 38 and change it to a 40 size, by remarking the ticket or changing it, just because he does not have on hand a size 40 to fill a retailer's order calling for such a size.

Sizes.— Then, again, the designer of a manufacturer will originate a style and perhaps forget to correct his pattern, or he will skimp it. The grader, who cuts the pattern for the various sizes, may not be efficient in his work. When the garments are cut on the graded patterns and completed, they will not fit women as they should.

A correct schedule of sizes for women's apparel is shown in the following chart:

	36	38	40	42	44	46	48	50	52
	INCHES								
Around bust	37½	40½	42½	44½	46½	48½	50½	52½	54½
Around waist	28	30	32	34	35½	37½	39	40½	41½
Around hips six inches below waist line	40	42	44	46	48	50	52	54	56

STOUTS

	38½	40½	42½	44½	46½	48½	50½	52½
	INCHES							
Around bust	43	45	47	49	51	53	55	57
Around waist	30½	32½	34½	36½	38½	40½	41½	42½
Around hips six inches below waist line	41	43	45	47	49	51	53	55

ODD SIZES

	37	39	41	43	45	47	49	51
			INCHES					
Around bust	38½	40½	42½	44½	46½	48½	50½	52½
Around waist	28	31	33	35	37	39	41	43
Around hips six inches below waist	44	46	48	50	52	54	56	58

Work Production Ticket.— A charge is made for every alteration, whether or not the charge is sufficient to cover the alteration. The customer is not expected to pay any addition to the original charge as set forth by the sales person at the time a sale is effected. The schedule of prices chargeable for alterations is set up by departments and can only be revised through the statistical department of the office, through recommendations by the comptroller to the merchandising office. The statistics are obtained through the work production tickets.

The need for cost accounting becomes apparent. To obtain the necessary requirements a procedure similar to that employed by manufacturing organizations is resorted to. That is, job production cost finding is necessary. The results of many similar jobs are the basis for the charge.

The production ticket will be marked by the foreman or department manager, the ticket being hung by means of an attached string to the garment. The coworker's name (better known as operative number) and the time put in for his particular work are added. Material cost will be entered by the clerk of the department. Upon completing the job, each ticket is sent to the general office for labor costs to be entered and burden applied.

The Statistical Record of alteration costs, in analytical form of the various classification of stock carried by departments using the workroom, is set up for monthly re-

ports. An analysis of costs, by this means, is the logical method of determining charges to be applied for various alterations.

The difficulty arises of meeting competition. Most stores,

Form 508

WORK PRODUCTION TICKET

ALTERATION DEPARTMENT

Number ____________

Date Received ____________ Time ____________ DEPT

Completed ____________ Time ____________

Description of Alteration ____________

GIVEN TO	NUMBER		RECEIVED	FINISHED	COST
Fitter		Time			
		Date			
Tailor		Time			
		Date			
Seamstress		Time			
		Date			
Presser		Time			
		Date			
Examiner		Time			
		Date			
Total Labor Cost					
Material Used					
Overhead Applied					
Total Cost					

Number ____________

Alteration Co-worker's Number ____________ Date ____________

FORM 56.— WORK PRODUCTION TICKET

in fact it would not be amiss to say almost all stores, set up arbitrary charges. Where they get their cost findings is a mystery to themselves. The general argument for their charge schedule is that their competitors charge a specific price for certain alterations, and that they follow blindly.

There are specialty shops in most communities that advertise " Alterations free of charge." What a fallacy this is. The burden of a store must thus of necessity increase, since labor and material for alterations are not given away for nothing. The customer must pay somehow, and she does.

Alteration Room Layout.— An inspection of alteration departments in department stores or specialty shops will disclose the usual fallacy of giving this particular department as little room as possible. This is not done because it is the desire of the management to do so, but for want of adequate selling space, which receives preference.

Plenty of sunlight and ventilation should be foremost in its planning. The odor from damp pressing cloths, escaping gas, steam boilers and benzine produces fumes that are obnoxious and detrimental to health.

Compartments for hanging the various garments to be finished on specific days should be set up by means of $1\frac{1}{2}$ inch iron pipes, projecting from walls and ceilings, each compartment indicating a particular day of the week. The layout of tailor's tables to be set should give plenty of working room, all of which is to be regulated by the space allowed for the department. The equipment should be modern in order to facilitate quick service.

There should be special compartments for special delivery alterations. This will be indicated by a red paster, marked " Rush," with the time to be delivered pasted on the alteration ticket.

Alterations for Stock.— It is not usually the custom, where a garment requires alterations for stock, that a

charge to the department requesting the alteration is affixed. It would be inconsistent with good management to eliminate this charge and add a burden to the alteration department without its receiving a return for labor and material. In making stock alterations, the cost charged

Form 501 8 17-10M

ALTER FOR STOCK

Date

Dept. Floor

REMARKS

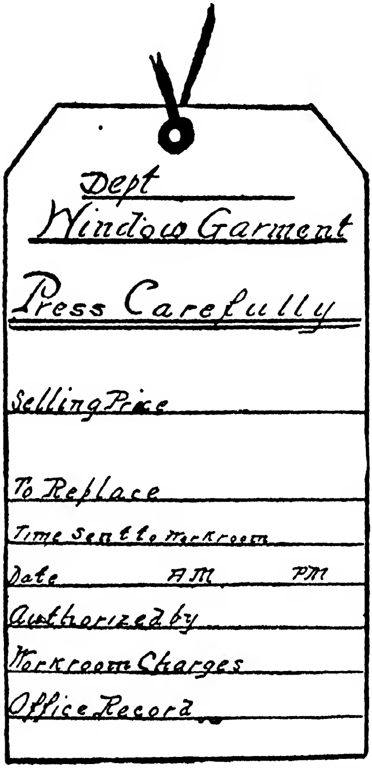
Charges

Authorized by

FORM 57 — ALTER FOR STOCK

by the alteration department should be carried as an add tional cost of merchandise by the merchandising depar ment. Many such alterations would eventually effect tl mark up. This method gives an equitable distribution cost. Such cost is a credit to the alteration departme (see Form 57).

Alterations for Window Display.— A store's greate advertisement is its window display. Here, merchandi is placed on forms, offset by expensive backgrounds ai decorations When a garment is placed on a form for d


Dept
Window Garment
Press Carefully
Selling Price
To Replace
Time Sent to Workroom
Date AM PM
Authorized by
Workroom Charges
Office Record

FORM 58.— ALTER FOR WINDOW GARMENT

play, its elegance must be presented in such a manner as to create a shopper's desire. The merchandise, if wearing apparel, must be pressed thoroughly, all the hooks and eyes sewed carefully, and there must be nothing out of place that indicates a defect. The window decorators will send such garments to the alteration department for the necessary attention. The cost of such alteration attention is chargeable to window display against the department whose merchandise is prepared for the display window (see Form 58).

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(1)